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THE 14TH ANNUAL DOLLARS PER DAY SURVEY OF THE SMALL FOOD STORE INDUSTRY

AND WHAT THE 12 LARGEST OIL COMPANIES SAID ABOUT GASOLINE MARKETING IN 1984

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The Dollars Per Day Survey presents the financial results of the leading publicly held small food store chains on a dollars per store per day basis. The dollars per day method reduces the operating figures of the chains to a common denominator: store accounting days. Each chain is analyzed on this basis and then ranked in comparison to the other chains.

SURVEY WINNERS: SHOP & GO

For the fourth year in a row, Shop & Go, Inc. is the pretax profit leader in the Survey. Shop & Go earned $107.68 per store per day, to win the Survey for the sixth time in thirteen years.

Shop & Go, which operates 430 stores in Florida and Georgia, is managed by Bob and Lorena Jaeb and their sons.

Dollars Per Day Profit Tray Presented to Shop & Go

Bob Jaeb, President of Shop & Go, is presented with the annual award by Ned Roscoe, editor of the Dollars Per Day Survey. John Jaeb is on the left.

SURVEY PARTICIPANTS

The chains included in this Survey are the largest chains in this business. To be included in this report, companies must meet the following criteria:

1. They must be publicly held.
2. Store operating figures must be adequately separated in the annual report from other lines of business in which the company might be engaged, so that reasonable deductions can be made concerning store operating results.

The following chains are analyzed in this report:

1. Shop & Go
2. National Convenience Stores
3. Circle K
4. Lil' Champ
5. Southland
6. Little General
7. Dairy Mart
8. Casey's General Store
9. Sunshine Jr.
10. Munford
11. CONNA

All of the data used is easily verifiable. It is derived from either the chain's annual report to the stockholders, the proxy statement, or the Form 10K filed with the Securities and Exchange Commission.

SURVEY METHOD: Store Sales and Gasoline Sales

Store sales are considered to be merchandise sales made from the store. These are the sales of the traditional products sold in a convenience store. Gasoline sales are sales of petroleum products, usually made from remote controlled dispensing systems that are activated at the checkstand inside the store.

Store sales for all of the chains are comparable. We have separated store sales and gasoline sales and have excluded gasoline sales from our sales computations and comparisons. Gasoline sales and gallonage figures are examined in Part II of this report.

Companies are ranked in the Survey to show relative performance among chains.

SURVEY METHOD: How Dollars Per Day Figures are computed

Figure operating store days:
Because the actual dates of new store openings are not known, all stores opened within the operating year were computed at the 1/2 rate. We have used the 1/2 year basis for store closings since the 12th Survey.

Figure Dollars Per Day:
Store days are divided into other operating figures shown in the annual reports to reduce these figures to a dollars per day basis. Any operating figure—sales, expenses, pretax and after tax profit—can be divided by store days to show its average dollars per store per day.

In this report, $DPD signifies dollars per store per day.

What This Shows:
When compared by company, dollars per day shows the relative performance of the surveyed chains. We also show the growth rates of pretax and after tax profits in current and constant (1971 = 100) dollars.

The Primary Purpose of the Survey:
The purpose of the $DPD Survey is to show and compare pretax dollars of the leading chains in the industry. We hope this will create an awareness of the profitability of the small food industry and point out areas where operators can increase the profitability of their chains.

Variations in Accounting Methods:
Since all data is obtained from the audited annual reports of the companies and/or their Forms 10K, and is based upon figures given by the chains themselves, we do not make allowances for variations in accounting practices among the chains. Where assumptions have been made, they have been indicated clearly on the computation sheet for each company.

Compute Your Own Dollars Per Day Figures:
You can compute dollars per day for your company and compare them with the leading companies in the industry.

You will need these figures:

Number of stores you operated at the beginning of your last year.

Number of stores you added during the year.

Total sales.

Total pretax profit.

Total after tax profit.

Here's How to Compute Your Dollars Per Day:

1. Compute store days as follows:

   Store days of stores open all year (365 × stores open at beginning of the year = A).

   Store days of new stores figured for 1/2 year only (182 × number of new stores opened during year = B).

   Total Operating Store Days = A + B.

2. Divide total store days into sales to get sales per store per day.

3. Divide total store days into pretax profit to get pretax profit per store per day.

4. Divide total store days into after tax profit to get after tax profit per store per day.

5. Rank your results along with the chains in the survey.

6. Consider what steps you should take to increase your dollars of pretax profit per store per day.

You may also want to use this method to compare other operating figures for your company. These statistics will be useful in comparing the current year with previous years and for comparing one store or division against another. The method reduces large unwieldy figures to a common basis that can be easily compared with other figures. If you have any questions about this method, please contact the Dollars Per Day Survey for assistance.

CONVENIENCE FOOD STORES AND THE FOOD BUSINESS

In 1983, *Progressive Grocer* estimated that there were 40,400 convenience food stores in the United States, out of a total of 158,000 food stores in the United States. *Progressive Grocer* counted 1,700 more convenience food stores in 1983 than in 1982—even though there were 4,000 fewer food stores in the country.

The eleven chains in this survey operate a total of 13,883 stores. If the *Progressive Grocer* estimate is correct, they operate 34% of the convenience food stores in the country, and 9% of all food stores in the country.

Figures for Years Ended	Shop&Go 3 29 84	National Convenience 6 30 84	Circle K 4 30 84	Lil' Champ 4 28 84	7-Eleven 12 31 83	Little General 12 31 83	Dairy Mart 1 31 84	Casey's General Store 4 30 84	Sunshine Jr. 12 29 83	Munford 12 29 83	CONNA 5 27 84	Totals
Average Sales per Store per Day	$ 1,046	1,367	1,139	956	1,656	1,089	1,191	806	558	845	1,610	$1,390
Profit per Store per Day Pretax	$ 107.68	75.75	71.18	62.15	55.58	18.63	31.61	30.56	20.43	19.50	(.60)	$54.21
Profit per Store per day after tax	$ 58.16	38.16	38.16	34.12	39.46	24.32	17.55	16.03	11.36	13.11	.14	$35.17
Small Food Store Sales	$ 160,811,000	523,700,000	646,700,000	61,127,000	1,370,000,000	175,019,000	69,372,546	54,143,383*	71,142,131	288,280,040	246,175,000	$6,667,200,100
After Tax Profit	$ 8,913,908	18,450,000	21,662,000	2,192,000	104,162,600	3,908,715	1,021,709	2,317,000	1,153,540	1,184,159	22,000	$168,647,931
Number of Stores	130	1,081	2,185	183	7,299	136	176	127	345	916	405	13,883
Percent of Sales Increase in $DPD Sales	+17%	+13%	+10%	+15%	+8%	-2%	+18%	+2%	-2%	+2%	+1%	+6%
After Tax Profit as a Percent of Sales	5.56%	3.52%	3.34%	3.56%	2.38%	2.23%	1.47%	...*	2.03%	1.56%	(.01%)	2.52%
Sales Increase per Store per Day	$ +151	+153	+101	+128	+121	-18	+185	+17	-12	+16	+56	$+80
Store Days	153,790	383,019	567,618	61,246	2,639,613	160,726	58,201	116,400*	127,946	341,250	152,880	4,795,689
Pretax Profit	$ 16,559,600	29,015,000	40,404,000	3,993,000	146,708,060	7,817,430	1,839,709	1,174,000	2,611,282	6,653,500	(92,000)	$259,986,581
Inventory Valuation Method	LIFO	FIFO	LIFO	LIFO	LIFO	FIFO	LIFO	LIFO	LIFO	FIFO	FIFO	
Closing Stock Price 10 26 84	20	17⅛	13⅝	20	30⅝	18⅝	12	13⅝	13⅛	23⅛	7⅛	
Return on Equity	25.9%	22.8%	27.0	17.9	15.1	12.8	21.5	21.2	10.1	16.2	2	
Earnings Per Share	$ 1.33	1.17	1.80	1.26	3.26	1.10	1.13	90	1.07	2.06	.02	
Ratio	15	17	11	16	8	16	11	15	11	12	..	

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.

Gasoline sales for the year were $3,260,113,957.

Total sales for both food and gasoline were $9,927,314,057.

*Casey's store sales for company operated stores only.

[redacted]

Figures for Years Ended	Fotomat 1-31-84	Swensens 12-31-83	7-Eleven Stores 12-31-83	Family Dollar Stores 8-31-83	Crown Books 1-31-84	McDonald's 12-31-83	Safeway 12-31-83	See's Candy 12-31-83	Lucky Stores (Food Stores) 1-29-84	Longs 1-26-84	Wal Mart 12-31-84	Pic 'N' Save 12-31-83	Toys R Us 1-29-84	Price Company 8-31-83
Average Daily Sales Per Store	$180	$723	$1,655	$1,215	$1,841	$3,165	$20,583	$1,760	$26,021	$19,110	$23,439	$7,543	$22,148	$295,162
Profit Per Day Per Store Pre Tax	($52)	($2)	$ 56	$ 113	$ 172	$ 229	$ 333	$ 361	$ 477	$ 1,112	$ 1,641	$2,447	$ 3,032	$ 9,477
Profit Per Day Per Store After Tax			$ 30	$ 75	$ 98	$ 125	$ 203	$ 181	$ 290	$ 570	$ 901	$1,210	$ 1,570	$ 4,775
Pretax Profits % on Sales			3.38%	11.13%	9.35%	7.23%	1.62%	20.52%	1.83%	5.84%	7.65%	30.82%	13.69%	4.62%
After Tax Profit % on Sales			2.41%	5.93%	5.32%	3.95%	.99%	10.25%	1.08%	2.99%	4.29%	16.04%	6.99%	2.33%
Average Sales Per Square Ft. Per Day	--	--	69	17	--		74	--	87	74	37	--	16	$2.05
Margin %	53.09%	--	--	36.72%	--	63.20%	23.33%		--	21.64%	26.77%	83.06%	33.22%	10.70%
# of stores at Year End	2,823	357	7,299	655	158	7,778	2,507	207	901	178	642	85	175	11
Store Days	1,293,023	127,193	2,639,613	212,417	19,618	2,713,993	992,992	75,867	213,122	63,882	217,677	30,110	58,786	5,085
Average Sales Per Store Per Year	$65,709	$263,895	$691,075	$454,425	$671,965	$1,155,225	$7,992,212	$612,300	$9,172,736	$6,956,000	$7,825,235	$2,743,000	$8,171,072	$74,678,968
Total Sales	$216,698,000	$92,000,000	$1,570,000,000	$294,139,107	$91,360,000	$8,687,000,000	$18,585,217,000	$133,531,000	$5,546,500,000	$1,241,143,000	$1,666,989,000	$227,130,000	$1,319,632,000	$632,923,000
Total Pretax Profit	($38,296,000)	($85,000)	$158,103,050	$30,237,162	$8,549,000	$628,000,000	$300,933,000	$27,411,000	$101,700,000	$71,037,000	$357,117,000	$73,099,000	$178,242,000	$29,239,000
Total After Tax Profit	--	--	$112,253,150	$15,726,580	$1,867,000	$343,000,000	$185,303,000	$13,699,000	$55,328,200	$36,387,000	$196,211,000	$36,451,000	$92,317,000	$14,732,000
Total Square Feet	--	--	17,517,600	--	--	--	109,818,000	--	17,345,000	1,507,000	34,353,000	--	7,875,000	1,120,000
Return on Average Stockholder Equity	--	--	15.38%	25.47%	13.53%	20.9%	14.50%	--	18.9%	17.19%	32.02%	32.22%	23.57%	33.00%
# of Employees	10,000	290	60,800	4,000	--		162,000		--	8,400	62,000	2,100	15,100	2,458
Net Store Growth During Year	(95)	17	131	106		519	93	5	87	7	91	5	27	1
Type of Store	Photo Finishing	Franchise Ice Cream	C Type	Variety Discount	Discount Books	Fast Food	Supermarket	Candy	Supermarket	Discount Drug	Discount	Close Out	Toys	Warehouse
% Store Growth in year	(25%)	1%	2%	20%	9%	7%	2%	2%	7%	1%	17%	6%	19%	57%
Market Price 10-5-84	1¼	3¼	9¾	24¼	10¼	9¾	21¼	1,350	18¾	11¾	9¾	20¾	9¼	10¾
Earnings Per Share last 12 months	(1.05)	N/A	1.35	1.05	N/A	1.91	1.17	65.80	1.91	3.18	1.51	1.17	1.70	1.86
Ratio	--	--	8	21	15	12	8	20	9	12	25	17	26	11
Principal on Forbes 400 Richest List				X		X		X			X	X		X

Dollars Per Day Survey — John F. Rosecor, 1357 Park Road, Benicia, CA 94510 707/745-0800

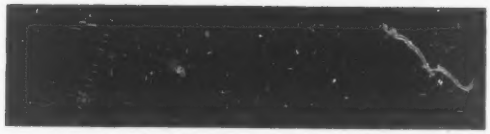
	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total Food Store Sales	$131 Billion	$143 Billion	$153 Billion	$163 Billion	$180 Billion	$199 Billion	$221 Billion	$241 Billion	$252 Billion	$264 Billion
Total Convenience Store Business	$5.5 Billion	$6.2 Billion	$7.1 Billion	$7.1 Billion	$8.7 Billion	$10 Billion	$12.1 Billion	$14.1 Billion	$15.1 Billion	$16.5 Billion
Convenience Store Business as a % of Total U.S. Food Store Business	4.06%	4.32%	4.84%	4.53%	4.84%	5.01%	5.61%	5.86%	5.99%	6.25%
Total Number of Food Stores	198,130	191,810	185,700	175,820	169,500	168,980	167,100	165,000	162,000	158,000
Total Number of Supermarkets	31,130	31,710	32,700	33,120	33,100	33,680	34,980	28,680*	28,950*	29,950
Total Number of Convenience Stores	22,700	25,000	27,400	30,000	32,500	34,125	35,800	37,800	38,700	40,400
Convenience Stores as a % of Total Food Stores	11.5%	13.0%	14.9%	17.0%	19.2%	20.2%	21.4%	22.9%	23.9%	25.6%
Average Annual Sales—Convenience Stores	$234,361	$248,000	$270,802	$236,000	$268,000	$293,040	$316,368	$374,544	$390,180	$408,415
Average Daily Sales—Convenience Stores	$642	$679	$741	$673	$731	$802	$949	$1,023	$1,068	$1,118
Consumer Price Index—Urban Consumers 1967 = 100	139.7	156.1	166.7	175.3	187.2	207.7	233.2	260.5	282.5	299.1
Average Daily Convenience Store Sales adjusted for inflation over 1974 base year		580	621	536	548	547	568	548	528	584

*Supermarket Qualifications—to include only stores doing over $2,000,000 annually

Convenience Stores' increase in percentage of total food store business from 1974 to 1983—$53.94%

Source of Information:

Progressive Grocer Annual Survey of Food Stores and *The Dollars Per Day Survey of The Small Food Store Industry*



I've been in the retail business long enough to think that I know something about most of the important things about that business. I'm always amazed when I discover something important that is contrary to my understanding of how the business works.

On November 18, 1983, Mr. Grover G. Jackson, Director, Vice President and General Counsel of Coca Cola Bottling Enterprises, Inc.—the wholly owned company bottling operation of the Coca Cola Company of Atlanta, Georgia—enlightened me as to the "channels of trade." I thought the intent of the Coca Cola Company was to charge all of its customers in the take-home market the same price. Instead, the Coca Cola Company recognizes various classes of customers within the take-home market and has different prices for customers from different classes of trade. Customers are assigned to these classes or channels of trade on the basis of the Coca Cola Company's perception of the type of business they conduct. Prices charged by the Coca Cola Company for their soft drinks vary between customers, depending on the "channel" in which Coca Cola places them and whether they happen to demand or are offered special discounts or rebates from the stated price for their "channel." I asked, but still haven't been told (12/12/83), the various categories or the requirements necessary to be perceived worthy of the most favored price category. Among the categories Mr. Jackson mentioned are membership club stores (The Price Company), supermarket chains (Safeway), and convenience stores. There are apparently other classes or channels of trade, and there are special deals within various channels.

In the San Francisco market, the Coca Cola bottler is a wholly owned subsidiary of the parent company. The listed wholesale price is $7.64 per case of 12 oz. cans. The Price Club (a membership-type mass retailer) apparently buys Coca Cola for $5.40 per case. Safeway purchases at $5.72, but that is before cash payments to Safeway of an unspecified amount. We've found that some of our competitors (Coca Cola does not perceive them to be competitors since they perceive them to be in other "channels of trade") have been offered prices and deals which have not been offered to us. (These include grand opening specials, remodeling specials, outside sales specials, anniversary specials, annual case rebates, and other specials.) You may want to write Mr. Grover Jackson, P.O. Drawer 1734, Atlanta, Georgia or call him at 404-898-3076 for an explanation of channels of trade.

Soft drinks are an important category for small food stores. In 1982, 13.11% of 7-Eleven's total in-store merchandise sales were soft drinks. They had $3.96 billion in merchandise sales, so they sold $519,400,000 in soft drinks. Total national soft drink sales are about a 20 billion dollar business, so 7-Eleven did about 2.6% of the national soft drink business.

If C-type stores are to break the value barrier, they must be able to purchase the products in their volume categories as cheaply as their competitors in other channels of trade. At the present time we cannot purchase Coca Cola as cheaply as our competitors can. We found this out by watching the soft drink ads.

We used to believe that our competitors (retailers who sell soda pop from stores) were selling soft drinks below cost. Now we know that they can sell cheaper than we can because they can buy soda pop cheaper than we can. Don't rely on anti-trust legislation to give you protection from price discrimination from the Coca Cola Company. Apparently the Soft Drink Territorial Exemption Bill of 1976 protected soft drink companies against some federal price discrimination laws. If you have information on the Coca Cola Company's channels of trade policy, I'd appreciate receiving it.

I have a confession to make. I've been wrong, and all of those operators who said I didn't understand the convenience store business were right. I've committed the basic strategic business mistake. I didn't know what business I was in.

All the years I've been in business I've thought we were in the general retailing business. I thought I was a merchant, supplying a line or lines of products to a cross section of the consuming public. My basic premise has been that if I continued to improve the offer to the public, the public would be happier and we'd continue to do better. We tried to distinguish ourselves by having brighter, cleaner, prettier stores than the competition. We kept trying to develop new and better ways of doing things. I just knew that if we did these things we'd end up rich and famous.

I had this crazy idea that this was the way successful retailers operated. Early in life I'd read the J.C. Penney story and other books about the famous department store barons of the past century. Their premise was that they were the cultural and material goal setters in their communities. If they upgraded their operations, they upgraded the community, and they sold more goods. I believed in upscale marketing. I bought the idea that doing it better, was better.

My quest was not lonely. Most of the aspiring talents in the business said the same thing. "It can be done better, this is how we do it better, why are you so stupid that you are not doing it better?" Conventions used the Onward and Upward theme. The literature of the trade preached this gospel. Salesmen kept up the drum beat "Improve your offer and thou shalt be rewarded." I didn't need much persuasion. I was a true believer in the spend and improve cause.

There were signals I should have heeded, and words of advice I should have taken. I remember Leroy Melcher saying that he didn't want any store doing over $8,000 a month. "If you get one of those, someone will just build another store across the street from you." "I don't want any barn burners." And late many evenings, I'd listen to confused operators say, "I don't know how so and so (you insert the name) does it; they run crummy dirty stores; they mistreat their employees; they never change; why they haven't even done (you insert the item); they never do any business; why I'll bet they don't do (you insert the amount); how do they stay in business?" And who could forget L. D. Lewis's immortal words, "I get a 24 percent margin, and we split it three ways: 1/3, 1/3, and 1/3 (one third operating expense, one third employee cost, and one third profit). That's all there is to this business."

All of these folks were telling me things I should have heard, but I never listened. I knew they were wrong. I just kept on making the same basic mistake, trying to do it better.

My mistakes and my misconceptions of the business have been very costly to me. Change and improvement are costly commodities. I think we've tried more things than anyone in the business. I don't know of anything we haven't tried. I've chased every rainbow and looked into every dream. I've been certain that if we just looked long enough, hard enough, and far enough, we'd find the magic product, process, or concept that would take us to Beulah land.

I've bought every new piece of equipment offered. I've tried every new product and visited every new store and concept. I've attended seminars and conventions of every kind of retailer. We've continued to change our offer. We've added, subtracted, multiplied, and divided. We've had short gondolas, tall gondolas, narrow gondolas, wide gondolas, round spinning gondolas, square gondolas, straight gondolas, and gondolas on the bias. I tried everything in gondolas except cheap wooden gondolas with fixed shelves because I knew they were wrong from the start. I remember a couple of years ago when Circle K had a weak moment and discovered adjustable shelving—they featured it in their annual report. We've had end checkstands, center checkstands, and checkstands with aisles. We have underground bunkers full of all the bright ideas in equipment. We keep one of each so we won't ever have to buy it again when the fever sets in. We've tried hand-dipped ice cream, soft ice cream, frozen yogurt, Italian ice and snow cones. We've made ice cream sandwiches and cotton candy. With popcorn, you name it, we've done it. We've made popcorn balls, tried it in huge bags, and small bags, sold it in paper bags, poly bags, boxes, and made it into bunny rabbits and smile faces. We've sold turtles, goldfish, salamanders, hamsters, chicks, bunnies, ducks, and parakeets. We've made donuts in the store, and in the commissary, we invented the big cookie (our baker had fat hands). We've had our housewares and garden center phases. We've sold bikes, trikes, wagons, sleds, toboggans, TV's, and floor scrubbers. When we couldn't sell them, we rented them. Fishing and hunting—we've been there: we've sold licenses, gear, guns, ammunition, fish worms, and salmon eggs. We've had big produce sections, small produce sections, and no produce sections. We've sold Christmas trees and ornaments, rented Santa Claus suits, sold big pumpkins and Halloween costumes, Easter lilies, made Easter baskets, chrysanthemums (I once sold 2,000 pots of them to 7-Eleven), sold Memorial Day wreaths, corsages, tulips, carnations and roses by the bunch, live shamrocks for St. Patty's day. We've had photo development in one day, one week, and where we've offered free film. We've sold fireworks, party decorations, birthday presents, hardware, and watches. We've had arcades, game rooms, pinball machines, coin operated copiers, laundries, rides, scales, gum machines, stamp machines, and fortune telling machines. We were severely afflicted with the coin operated mania. It was intense and prolonged.

We were champion toy buyers. We sold winkies, hula hoops, plush animals, water wiggles, slinkys, games, yo yo's, kites, water slides, and trolls. One year we cornered the market on Beany and Cecil, Odd Ogs, and King Zors. Barbie was a personal friend, and the Mattel salesman knew my first name. Did I tell you about our efforts to beautify the world through lawn and garden? We sold bedding plants, fertilizer (liquid and granule), garden tools, spreaders, trees, hoses, sprinklers, and lawnmowers (hand and gas operated.) In our racing phase, we were the place to buy dog and horse racing programs. In greeting cards we went the route: Christmas, get well, birthday, valentines, and Hanukkah cards. We've done about all you can do to chicken: fried it in the store, broasted it, microwaved it, and barbecued the bird. Unlike the Colonel, we never could do it right. We've sold wood, fire logs, kindling, Presto logs and fireplace grates. We've sold pizza by the wedge, sold uncooked pizzas, cooked it in big pizza ovens, round pizza ovens and tiny pizza ovens. We never could get a decent share of the pizza business. We've made caramel apples, pies, birthday cakes and fudge. If it could be tried, we tried it. If it had to be thought up to try it, we did that.

I've never denied myself any opportunity. I've tried to catch every brass ring that came by. The worst of my sins, is that I've led others down some of these same paths to their detriment.

My problem is that I just didn't understand the business that I was in. Chance had cast a more-is-better person into a field where less-is-more-profitable. I started with bad instincts and was captured by the hype of the trade.

Now, after all of these years and many failures, I've just figured out what business I've really been in. I've been in the blind newsstand business. The blind newsstand business and the convenience store

business have a lot in common. They are both simple businesses and do best when they are kept simple. They sell things to people who happen to be in a particular location and have an immediate and compelling need for a product at that specific moment. Both businesses need to be kept very basic. In the convenience store business, the most success has come to those have done the least. There is an obvious success formula. It's the one that I've overlooked in all of these years of searching. Here it is: You get yourself a cheap building in the best location you can get; you put in some plain wood shelves that you or someone makes in your garage; you get some merchandise (preferably on guaranteed sale)—AND YOU WATCH YOUR COSTS. You don't sell much, but it doesn't cost you much not to sell much. You don't hire architects and designers—you listen to experts for laughs and because you were brought up to be polite, but you don't pay for or take any of their advice. It's kind of like running a blind newsstand. You've got yourself a good location, you can't see that it's dirty and run down, and you get all of the business the location allows at costs that may give you a profit.

The people in the convenience store business that have done the best so far are the ones who have followed this formula. Many of them have made a lot of money. Some of them have left the business rich. They understood the business they were in. I'm confessing that these operators either instinctively, or through better judgment understood and understand this business better than I. I'll also confess to believing and stating that their wisdom was not enlightenment, but ignorance. They knew they were operating blind newsstands. They knew what they could and should do, and what they couldn't and shouldn't do. Blind newsdealers never overestimate the market. Convenience store merchandising, and selling principles do not correspond to the traditional retailing principles that are at work in most American retailing. There is a value barrier between convenience store retailing and other retailing. I don't know if it is possible to break this value barrier if you start with a convenience store type heritage. It may not be possible to go from the less for more image of the small store to a more for less image that other successful retailers have created. Will customers ever consider a store with a misspelled four letter name to be a legitimate place to buy goods for value? Can a small food store develop sufficient margin dollars to clean up its litter, repair holes in its parking lots, have street curbs, and repair or remove all of its broken or unused equipment? Can a small food store develop the supervisory environment necessary to motivate and keep a stable committed employee staff? The operators I know who are committed to upscale offers and programs are straining from their costs. As of this time, it still means more to the managements of those companies than it does to their customers or owners. As with most things, one's hopes are with virtue, but you should put your money with the sinners.

It appears that any change from the basic convenience store operating position of the last 30 years is dangerous and costly. It does appear that some operators share my misconception of the business they are in, and continue to try to shatter the value barrier. When you try to pierce this barrier, you start to spend money. You improve your physical facilities, you hire better people, you take better sites, and you put in new and fancy equipment. You try to catch every crazy idea and fad that comes along. You buy the machine it always takes to do the function. You forget that all tests work, and you roll out the program before the enthusiasm fades. You begin doing cute advertising because it's nice to be known in the community. You hire designers, architects and advisers. You send people on trips and to conventions to learn how to do things better. You forget the verities of the business. You increase your working hours because you have to run faster to stay even. You develop more margin dollars, but you have lots of new costs.

You start to get a lot smarter, but you've paid dearly for your education. You have a tiger by the tail and there is no place to let him go. You have to catch the next breeze to pay for the costs of your last attempt to get more than convenience sales. The path to failure, if you are in either the blind newsstand business or the convenience store business, is to try to get more sales than your location allows.

Attempts to break the value barrier and to make the convenience store into a legitimate retailing enterprise are dangerous, costly, and many times disastrous. I know of no confirmed examples of people or companies who have made a successful transistion from convenience to value.

I'd like to believe that it's possible. National Convenience Stores is making a try at it. I've recently been in two Stop 'N' Go stores. The first one is a new superstore in North Dallas. They must have spent a million dollars on the facility. It was featured in this year's Annual Report. The second store is just off Indian School Road in West Phoenix. It is an old run down unit that looks as if it were built in the 50's and not more than $50,000 has ever been spent for the combined costs of land, building, equipment, merchandise, and repair.

Unfortunately, both fill the same function. As far as meeting its market, the function is more cost effective in the West Phoenix unit than in the Dallas Dream Store. This blind newsstand will do more for the NCS annual statement than all the fine photographs of the superstore. I applaud Pete Van Horn for trying fancy units, but I don't believe he's come close yet to breaking the value barrier.

I hope I'm around when someone does develop a small store concept that can break the value barrier in a repeatable way. I hope, I'm patient enough to seek confirmation of their financial success before I start to copy them. Further, I hope that when I do, I really understand the dynamics of their success and what business they are in so that I don't spend another 25 years chasing rainbows. I'd really like to go to parties and not have to pretend I'm not in the blind newsstand business.

It's taken me years to finally understand what the great operators were saying about the convenience store business. I've invested lots of time, effort and money to find this one small kernel of truth about this business. I'm sharing it with you for just the price of this Survey. Unfortunately, many of you won't believe me. You won't believe the business you are in. Some of you will continue to thrash around trying to use all of the gimmicks to improve the convenience store business. Others will continue to try to break the value barrier. All of you will be damned to years of twisting and turning, trying to come up with a magic solution to a basic retailing problem.

I'll tell you one more time. If you want to be a success in the convenience store business, keep it simple. Do it cheap. Don't worry about quality. It costs too much. Above all, hold down your costs. Be able to fill the convenience function cheaper than the other guy. It may someday be totally uneconomic to run the kind of units that have made money and still make money in this business, but it hasn't happened yet. There is still a place for the old low cost, down and dirty stores that have made men rich.

I'd like to write more, but a guy is here with a croissant cooker that may just get us through the next year.

Data Taken from the Annual Report
and 10-Ks for the Year Ended 1-29-83

Journey Economy Lube Corporation

	1st Years	2nd Years	3rd Years	4th Years	5th Years	6th Years	7th Years	8th Years	9th Years	10th Years	11th Years	12th Years	13th Years	14th Years	15th Years
	1-31-71	1-31-72	1-31-73	1-31-74	1-31-75	1-31-76	1-31-77	1-31-78	1-29-79	1-05-80	1-02-81	1-02-82	1-31-83	1-29-84	
	Year Ended														
SHOP & GAS INC.															
Mango, Florida															
Number of Stores	121	131	171	235	285	342	371	379	381	412	465	515	580		
Store Growth in Year		15	36	65	50	57	29	8	2	31	-7	+10	+15		
Store Days		38,910	55,898	73,860	93,160	111,156	129,766	136,500	140,089	141,326	117,120	149,210	153,790		
Sales per Day		$532	$637	$667	$639	$615	$637	$687	$771	$818	$913	$892	$1,006		
Sales Growth $DPD			$+115	$+29	$-28	$-26	$+21	$+50	$+84	$+77	$+65	$-21	$+154		
Pretax Profit $DPD		$38.16	$50.26	$56.51	$52.91	$52.91	$52.21	$53.70	$60.70	$61.76	$78.81	$78.71	$107.08		
After Tax Profit $DPD		$19.12	$25.59	$19.19	$17.31	$11.16	$17.50	$22.62	$31.83	$31.32	$42.80	$13.02	$58.18		
Store Closures			2	2		5	9	10	9	12	21	8	7		
Gasoline Units			59	69	118	192	225	225	225	265	268	286	307		
$DPD Ranking		Not Included	1-13	2-13	1-13	1-13	6-13	2-13	2-13	1-12	1-11	1-11	1-11		

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 130 Shop & Go stores on March 29, 1981, all of which are in Florida and South Georgia.

1. The annual report states that total convenience store merchandise sales were $160,831,000.

2. Store Days:
   Store days of stores open all year: 115×364 = 151,060
   Store days of new stores figured for 1/2 year only: 15×182 = 2,730
   Total store days: 153,790

3. Sales per Store per Day:
   Sales of $160,831,000 divided by 153,790 store days equals average sales of $1,046 per store per day.

4. Pretax Profits:
   Pretax profits of $16,550,000 have been divided by store days of 153,790 to arrive at a pretax profit of $107.08.

5. After Tax Profits:
   After tax profits of $8,915,000 have been divided by store days of 153,790 to arrive at an after tax profit of $58.16.

6. New Stores Planned:
   25-30 new stores in fiscal 1985.

7. Gasoline not included in sales.

8. Video Commission of $790,000 equals $5.13 per store per day. This is a decrease in sales gone revenue of $2.12 per store per day from the previous year, and a decrease of $5.76 per store per day over the last two years.

To Our Stockholders:

We are pleased to report another year of record earnings and revenues. Net earnings for the year ended March 29, 1984 increased 39% to $8,944,000, or $1.33 per share, while total revenues increased 26% to $254,183,000. These results were achieved largely through increases in convenience store sales and gasoline sales of 21% and 35%, respectively.

During fiscal 1984, the Company opened 15 stores pursuant to the selective criteria for new store sites, which limits new locations to those which have the potential for above average convenience store sales and gasoline sales. In addition, seven existing stores were acquired from another company and seven unprofitable stores were closed, resulting in 430 stores being in operation at March 29, 1984. We are projecting that 25 to 30 new stores will be opened during fiscal 1985 with the growth thereafter contingent on the availability of sites which meet the Company's criteria.

On March 14, 1984, the Company purchased a 277,000 square foot warehouse and office complex on 28 acres of land for a total purchase price of $5,200,000. The complex satisfies the immediate space requirements of its general offices and sandwich operations. The complex provides the Company with central storage and distribution facilities not heretofore available to it. As a result, we believe that the Company will be better able to take advantage of merchandising opportunities and will have increased purchasing and marketing flexibility.

During the year, an emphasis was placed on the upgrading of existing gasoline locations by installing canopies and additional hose outlets. Management continues to evaluate existing store locations which do not presently offer gasoline for sale as to the feasibility of adding gasoline equipment where zoning regulations permit. It is worthy to note that 106,000,000 gallons of motor fuel were sold during fiscal 1984. Presently, Gem Petroleum, Inc., our wholly-owned subsidiary, is the 8th largest retailer of gasoline in the State of Florida.

Management believes that Shop & Go is well positioned in key growth markets within Florida. Each member of the management team is dedicated to take advantage of the opportunities that this position offers.

Robert A. Jaeb

Robert A. Jaeb
Chairman of the Board
President

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Liquidity And Capital Resources

Liquidity:

Working capital (current assets less current liabilities) and current ratio (current assets divided by current liabilities) for the three fiscal years ended March 29, 1984 were:

	1984	1983	1982
Working Capital	$(3,990,000)	$(2,346,000)	$(3,636,000)
Current Ratio	.77	.82	.74

In fiscal 1984, current assets increased $2,935,653 as a result of an increase in convenience store inventories of $1,518,038, an increase in gasoline inventories of $607,132 and an increase of $856,381 in cash. Current liabilities increased $4,579,531, as the result of increases in trade accounts payable of $1,928,784, accrued Federal and State income taxes of $1,314,933 and gasoline and other taxes payable of $1,372,107.

In fiscal 1983, current assets increased $204,486 while current liabilities decreased $1,085,829, primarily as the result of decreases in long-term debt due within one year of $2,097,654 and accrued Federal and State income taxes of $886,597. These were partially offset by increases in trade accounts payable of $949,135, gasoline taxes payable of $548,713 and other accrued liabilities of $348,446.

Capital Resources:

The Company's operations generated working capital of $14,503,405 in fiscal 1984, $10,944,307 in fiscal 1983 and $9,838,478 in fiscal 1982.

On March 14, 1984, the Company purchased an office and warehouse complex for a cash purchase price of $5,200,000. In order to provide funds for the acquisition, an unsecured loan of $5,500,000 which is due on April 30, 1985 was obtained from a bank. Management is presently considering several options regarding repayment of the bank loan which might be available at or prior to the maturity of the loan. Such options, among others, include an extension of the term of the present loan with a principal payment of at least $300,000 on or prior to April 30, 1985. An additional undetermined amount of funds will be required for renovations, furnishings and equipment at the new complex. Management believes that the Company has the ability to cover expenditures associated with the acquisition and renovation of the complex by using a combination of cash flow from operations, an available line of credit on a short-term basis or by means of long-term borrowing.

In fiscal 1984, working capital of $14,503,000 was provided from operations, which was used principally for property additions of $14,608,000, not including expenses associated with the office and warehouse complex. Expenditures for current and future store sites totaled $4,844,000 and expenditures for store buildings totaled $3,711,000, including amounts applicable to six locations under construction at March 29, 1984. The cost of store equipment, gasoline equipment and motor vehicles aggregated $2,156,000, $2,329,000 and $1,200,000, respectively.

In fiscal 1983, funds generated from operations and from the issuance of long-term debt were used, among other things, for property additions of $10,145,000. Such additions included the cost of store sites for present and future construction of $2,565,000, the cost of buildings and improvements of $3,233,000, the cost of new gasoline installations and the upgrading of existing locations of $1,127,000, the cost of new store equipment of $1,692,000 and expenditures of $1,528,000 for additions to the vehicle fleet, including $1,066,000 applicable to the purchase of 33 vehicles which were previously leased. The foregoing expenditures include costs applicable to 18 stores which were opened during fiscal 1983 and seven stores which were under construction at March 31, 1983.

Management's Discussion (continued)

In fiscal 1982, funds were generated from operations, through the issuance of long-term debt and from the sale of certain stores which had operated below acceptable levels. These funds were used primarily for property additions, including the purchase from the Company's principal gasoline supplier of the gasoline inventory and equipment used by the supplier in the sale of gasoline at 221 of the Company's stores on which the Company previously received commissions based on the amount and profitability of such sales.

Shop & Go intends to continue its expansion program, and is planning on the addition of approximately 25 to 30 new convenience stores in fiscal 1985. The cost of acquiring the sites for and building and stocking these stores is anticipated to be funded from working capital provided by operations and long-term borrowings applicable to specific store sites.

Generally, in each of the last three fiscal years, cash flow from operations has been sufficient to meet working capital requirements. As a result of this high degree of liquidity, the Company has not found it necessary to obtain significant amounts of funds from external sources, except for long-term borrowings relating to specific store locations and, during fiscal 1984, the foregoing purchase of the office and warehouse complex.

The Company currently has a line of credit arrangement with maximum borrowing availability of $4,000,000, none of which was used during the year ended March 29, 1984.

Results of Operations

Comparison of Fiscal 1984 to Fiscal 1983

Net sales increased $52,108,000, or 26.0%, in fiscal 1984 as compared to fiscal 1983. Aggregate convenience store sales increased 21.0%, average per location convenience store sales increased 17.8% and aggregate gasoline sales, comprising 36.9% of fiscal 1984 total net sales, increased 35.7%. Management attributes the increase in average per location convenience store sales to (1) an aggressive pricing structure with respect to price sensitive items, (2) an increase in store traffic generated by additional gasoline customers and (3) an improvement in the economy. More competitive gasoline pricing is believed by Management to be the principal reason for the increase in gasoline sales.

The overall gross profit percentage (net sales minus cost of goods sold as a percentage of sales) decreased from 26.3% during fiscal 1983 to 24.4% during fiscal 1984 principally due to a decrease in the gross profit percentage on convenience store sales resulting from selective price changes pursuant to Management's aggressive marketing philosophy. The gross profit percentage on gasoline sales fluctuated less than 1% between such periods.

Increases in rental income from miscellaneous property located adjacent to stores and interest income resulting from the placing of available funds in interest-earning temporary cash investments, and gains on non-recurring sales of fixed assets, partially offset by a decrease in commissions from video games installed in most of the Company's stores, were the principal reasons other income increased from $1,496,374 in fiscal 1983 to $1,626,127 in fiscal 1984.

Operating, general and administrative expenses increased $3,383,050, or 8.8%, in fiscal 1984 as compared to fiscal 1983, primarily as a result of an increase in labor related expenses, an increase in operating expenses associated with the gasoline and sandwich operations and the effect of recently opened stores.

Depreciation and amortization expense increased $948,651, or 26.4%, primarily due to the effect of recently opened stores and the upgrading of certain existing gasoline locations.

Management believes that inflation has produced an increase in costs and operating, general and administrative expenses during fiscal years 1984 and 1983. Management also believes that rising prices, due

Data Taken from the Annual Report
and 10K for the Year Ended 6-30-81

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	6-30-71	6-30-72	6-30-73	6-30-74	6-30-75	6-30-76	6-30-77	6-30-78	6-30-79	6-30-80	6-30-81	6-30-82	6-30-83	6-30-84
NATIONAL CONVENIENCE STORES **Houston, Texas**														
Number of Stores	187	529	646	808	801	713	722	725	806	817	832	922	1,012	1,081
Store Growth in Year	31	12	117	162	-7	-58	-21	3	81	11	15	90	90	69
Store Days	172,113	185,141	214,196	265,436	292,365	271,938	263,530	261,076	268,350	296,192	305,578	320,060	352,910	383,019
Sales per Day	$118	$178	$503	$495	$552	$643	$727	$813	$919	$1,036	$1,112	$1,298	$1,214	$1,367
Sales Growth $DPD	$+57	$+60	$+25	$-8	$+121	$+91	$+84	$+86	$+106	$+117	$+106	$+156	$-84	$+153
Pretax Profit $DPD	$7.07	$13.63	$13.35	$11.30	$5.87	$18.09	$25.58	$32.35	$36.52	$11.88	$51.61	$60.49	$65.03	$75.75
After Tax Profit $DPD	$4.11	$7.50	$8.22	$8.12	$4.30	$9.75	$13.11	$18.98	$22.37	$27.18	$33.31	$38.07	$40.31	$48.16
Store Closures	10	19	23	20	71	79	38	18	29	28	12	73	92	35
Gasoline Units	35	84	183	255	282	292	311	327	118	116	178	585	695	775
$DPD Ranking	6-10	5-10	7-10	11-13	12-13	8-13	6-13	5-13	6-13	3-13	3-12	1-11	2-12	2-11

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 1,081 stores in eleven sun belt states on June 30, 1984, primarily under the names of "Stop 'N' Go, Hot Stop, Shop 'N' Go, and Colonial". 125 Colonial food stores were acquired on May 31, 1983. Over 61% of all the stores are in Texas.

1. The annual report states that store sales were $523,700,000.

2. Store Days:
   Store days of stores open all year: 1,012×366 = 370,392
   Store days of new stores figured for 1-2 year only: 69×183 = 12,627
   Total store days: 383,019

3. Sales per Store per Day:
   Store sales of $523,700,000 divided by 383,019 store days equals average sales of $1,367 per store per day for the year.

4. Pretax Profit:
   Pretax profit of $29,015,000 divided by 383,019 store days results in a pretax profit of $75.75 per store per day.

5. After Tax Profit:
   After tax profit of $18,150,000 divided by 383,019 store days results in an after tax profit of $48.17 per store per day.

6. New stores planned: 112 new stores are planned for this year. First year sales for new stores are expected to be $610,000 or $1,753 per store per day. First year gasoline sales are expected to be 557,000 gallons or 1,527 gallons per unit per day.

7. Gasoline is not included in the sales figures.

8. The company figures its own income per store. Their figures show after tax $DPD per day per store to be $48.36.

9. Expects to have about 1,400 stores with store sales of $899,000,000 and earn $59,000,000 in pretax dollars by the end of fiscal year 1987. They would thus operate 511,000 store days. Store sales would average $1,759 per store per day and pretax earnings would be $115.46 per store per day.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations:

The following table indicates the percentage which items in the Consolidated Statements of Earnings bear to sales and their percentage change over the preceding years.

	Percentage of Sales Year Ended June 30			Year to Year Percentage Change		
	1984	1983	1982	**1984 vs. 1983**	1983 vs. 1982	1982 vs. 1981
Sales	**100.0%**	100.0%	100.0%	**30%**	2%	17%
Cost of sales	**73.0**	71.4	72.9	**32**	1	15
Gross profit	**27.0**	28.6	27.1	**22**	7	23
Operating expenses	**16.8**	18.0	17.4	**21**	6	23
General and administrative expenses	**4.8**	5.4	5.4	**17**	1	22
Interest expense	**1.8**	1.6	1.2	**50**	30	62
Earnings before income taxes	**3.6**	3.6	3.1	**26**	19	16
Income taxes	**1.3**	1.4	1.1	**21**	22	10
Net earnings	**2.3%**	2.2%	2.0%	**30**	17	20

The 30% increase in sales was primarily due to an 18% increase in the average number of stores in operation during 1984, NCS' continued emphasis on fast food and nonfood products and competitive pricing on price-sensitive, high volume products. The 2% increase in sales in 1983 was less than the increase in 1982 due to a lower level of general inflation, a reduction in the retail selling price of gasoline and the effects of the economic recession in all markets, particularly the southeastern portion of the U.S. and Houston, Texas. Average sales per store were $783,000 in 1984, $715,000 in 1983, and $689,000 in 1982 reflecting gains of 9.5%, 3.8%, and 6.2%, respectively.

	1984	**% Gain**	1983	% Gain	1982	% Gain
	($ and gallons in millions)					
Merchandise sales	**$523.7**	**22.2**	$428.6	3.2	$415.3	19.0
Gasoline:						
Sales	**$295.3**	**45.0**	$203.7	.8	$202.1	13.3
Gallons sold*	**310.0**	**33.9**	231.6	7.0	216.5	18.8

*Includes gallons sold on a commission basis of 44,472,000, 44,300,000, and 46,400,000, respectively.

The volume of gasoline sold has improved each year as a result of NCS' competitive pricing of gasoline products, the continuous upgrading of gasoline facilities, and an increase in the number of stores selling gasoline.

The gross profit decrease to 27% in 1984 from 28.6% in 1983 is primarily due to the increase of lower margin gasoline sales as a percentage of total sales. The increase in margin for 1983 was primarily due to sales improvements in higher-margin fast food and nonfood products and the contribution of revenues from coin-operated electronic video games. The average per-gallon margin in gasoline sales was 6.7 cents, 6.2 cents, and 7.3 cents for each of the last three years, respectively. The sharp reduction in gasoline margins for fiscal 1983 was due to an oversupply condition and a more aggressive pricing posture by the major gasoline retailers.

During 1984, general and administrative expenses were lower as a percentage of sales as a result of expense control programs initiated in the second half of fiscal 1983. The reduction of 1984 operating expense as a percentage of sales is due primarily to the increased percentage of total sales represented by gasoline sales, which have lower operating costs. Higher operating expenses in 1983 which exceeded those in 1982 are attributable to increases in depreciation, insurance losses, and utilities.

Interest expense increased each year due to higher

levels of debt resulting from the development of new store sites and the acquisition of stores from other operators.

The effective income tax rates of 36% in 1984, 38% in 1983, and 37% in 1982 were lower than the federal statutory rates due primarily to investment credits on capital expenditures for store and gasoline equipment.

The increases of 25.8%, 8.1%, and 13.2% in earnings per share for each of the last three years were less than net earnings increases due to the increase in average shares outstanding from sales and other issuances of common stock.

Liquidity and Capital Resources:

Liquidity

Working capital (current assets less current liabilities) and the current ratio (current assets divided by current liabilities) at year end were:

	1984	1983	1982
Working capital (in millions)	$39.6	$37.3	$32.1
Current ratio	1.64	1.66	1.71

The changes in working capital and the current ratio relate primarily to NCS' investment in new store properties which are carried as current assets until mortgaged. Since substantially all NCS' sales are for cash and total inventories are converted to cash in less than one month, NCS considers its cash flow adequate to satisfy its daily working capital requirements. To provide for any temporary shortfalls in working capital, NCS has a short-term unsecured bank credit line of $20 million.

Capital Resources

NCS believes there are opportunities to improve its sales and earnings performance through additional capital investment. Capital expenditure plans include both the remodeling and renovation of existing stores, the introduction of new equipment to enhance operating efficiency and respond to customer demand, and the acquisition and development of new store sites.

Capital expenditures and internally generated funds (working capital provided from operations) for the three years were:

	1984	1983	1982
	($ in millions)		
Capital expenditures	$93.3	$73.9	$57.0
Internally generated funds	46.7	35.7	29.2

To provide the necessary funds for capital expenditures, NCS will use the most advantageous combination of internally generated funds and debt, lease, and equity financing. NCS' policy is to fund all capital expenditures for equipment, fixtures, and improvements through internally generated funds. New store locations are funded through debt or lease financing.

NCS prefers, when possible, to own its operating assets including new store locations. To finance the ownership of stores, NCS funds the purchase of sites and the construction of stores through a $60 million unsecured bank revolving credit facility. The developed sites are subsequently refinanced through long-term mortgages.

The majority of NCS' stores are still operated under capital leases. Increases in capital lease obligations during recent years are primarily the result of leases assumed from other operators through acquisition.

Liabilities related to owned store sites are greater than they would be if NCS chose to continue leasing new store locations. A capital lease obligation reflects only the portion of the obligation related to the store building whereas a debt obligation related to an owned store site reflects both the building and the land.

In December 1983, NCS issued $50 million of 9% subordinated convertible debentures convertible into common stock at $25 per share. This offering provided NCS with a stable source of long-term financing at a favorable cost. The proceeds of this offering were used to reduce bank debt incurred primarily for the construction of new stores and the acquisition of stores from other operators.

During the three-year period, NCS' annual dividend payout increased to $.40 a share in 1984 from $.36 in 1983 and $.32 in 1982. NCS' dividend policy, which is developed in light of earnings performance and financial condition, is anticipated to range between 25% and 30% of earnings.

NCS distributed additional shares to stockholders through a 3 for 2 stock split, a 5 for 4 stock split, and a 20% stock dividend in each of the last three years, respectively.

To Our Shareholders

Fiscal 1984 was the ninth straight year of record sales and earnings for National Convenience Stores. It was also the first year of a four-year plan to double earnings by the end of fiscal 1987. Having seen 1984's results, I am more confident than ever of our ability to achieve this goal.

For the year ended June 30, 1984, net earnings rose 30 percent to $18.4 million, equal to $1.17 per share, from $14.2 million, or $.93 per share, in fiscal 1983. Sales reached $819 million, up 30 percent from $632 million a year ago. Merchandise sales increased to $524 million from $429 million the previous year and gasoline sales increased to $295 million from $204 million a year ago. The increase in gasoline volume to 310 million gallons from 232 million gallons was partially due to 116 Colonial gasoline units acquired late in fiscal 1983 contributing for all of fiscal 1984. Gasoline gross margins averaged 6.7 cents per gallon during fiscal 1984 as compared to 6.2 cents in fiscal 1983.

The strong growth in sales and earnings this past year is particularly notable considering that the economy in Houston, our largest market, continued to be severely impacted by a weak energy industry. Operating earnings in Houston in fiscal 1984 were down almost 50 per cent from the prior year. This was offset by very strong results in other Texas cities as well as our other Sunbelt markets.

During the past year, we added 104 stores and closed 35, resulting in 1,081 stores in operation versus 1,012 at the prior year end. Store additions included the construction of 42 units and the acquisition of 62 units. Acquired stores are located in Houston, Dallas/Fort Worth, and Las Vegas, which is consistent with our strategy to increase market share in existing Sunbelt markets.

We strengthened our management team during the year by promoting Tom Ewens to Senior Vice President-Corporate Development, Jerry Welch to Senior Vice President-Stores and Patricia Raybon to Vice President-Internal Audit. Chris Brewster joined us in March 1984 as Vice President-Finance and Chief Financial Officer. During fiscal 1934, we moved into new corporate headquarters after being in the same location for 18 years. Our new building has ample room for growth in the years ahead.

Shareholders continued to benefit from the Company's growth, with return on beginning stockholders' equity remaining strong at 24.8 percent. The annual cash dividend rate was again raised, this time by 11 percent to $.40 per share. Also, a three-for-two stock split was issued last fall. The Company's Board of Directors has declared stock dividends or splits in four of the last five years.

In July 1983, shares of NCS common stock, representing approximately 23 percent of the Company's total outstanding common stock, were sold in a public offering by a group of insurance companies affiliated with American Financial Corporation and Mr. Carl Lindner, principal shareholder and Chairman of the Board of American Financial Corporation. Although none of the proceeds of the offering were received by NCS, the transaction resulted in a substantially broader ownership base and increased liquidity for our common shares. In December 1983, the Company completed an offering of $50 million of subordinated debentures convertible into common stock. Proceeds were used to reduce bank debt.

NCS invested a record $93 million in its business last year, including $22 million for acquisitions. Internally generated funds increased from $36 million to $47 million and helped to support our capital programs. Over the past four years we have invested more than a quarter of a billion dollars in the growth of our business. As a result, our store base represents the state of the art in convenience retailing and positions us for strong growth for the rest of the decade

and beyond.

The Company's future growth is also supported by a sound financial position. In fiscal 1985, our capital expenditures will grow to $108 million. We plan to open 112 new stores at a cost of $60 million for land and buildings and $22 million for equipment. The remaining $26 million will be reinvested in our existing store base, including interior and exterior remodeling and remerchandising.

Our store remodeling is part of an overall program to enhance consumer perceptions of NCS as their "Neighborstore." This concept evokes memories of wholesome times and traditional values in the minds of our present and potential customers. At the same time, it conveys the message that the "Neighborstore" is innovative enough to quickly respond to their changing lifestyles. The notion of the "Neighborstore" also signifies our pledge to make sure that each of our stores is a good business citizen, friendly, concerned and committed to providing the best of services to its community. For example, in 1984 NCS was proud to be a national corporate sponsor of the March of Dimes and our employees raised $250,000 for the campaign. This involvement close to home is more than altruism—it is good business practice for NCS because most of our stores are located right in the neighborhood, within a mile of where our customers live or work.

The word "Neighborstore" will become part of our stores' logo and will be highlighted in bright new storefront signage as well as in new interior graphics. Revised store layouts, new merchandising presentations, and improved interior and exterior lighting are also planned as part of our repositioning program.

The "Neighborstore" program is being launched in fiscal 1985, our twenty-fifth anniversary year. As proud as we are of our Company's heritage and development, we believe that our strongest growth will come in the years ahead. Significant changes in consumer demographics are underway and all consumers are placing more value on their time. Our stores are the alternative to excessive driving time, remote parking, and long checkout lines. We know that our brand of specialty retailing is particularly appropriate because convenience and time savings are what we really sell.

Our confidence in the continued growth of our business led to a recent announcement that we intend to double fiscal 1983 net earnings in four years. NCS has credibility when it comes to such projections. In 1977, we said we would double earnings in four years and actually accomplished our goal in three years.

Starting on the next page, we explain our plans in some detail. We are sharing our specific growth plans for the Company with you because we believe that investors have a legitimate interest in our plans as well as in our past results. Management is very excited about the Company's future and hopes that you will share this excitement with us.

Sincerely,

V.H. Van Horn
President and Chief
Executive Officer

September 17, 1984

Data Taken from the Annual Report
and 10K for the Year Ended 4-30-81

Inventory Accounting: LIFO

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	4 30 71	4 30 72	4 30 73	4 30 74	4 30 75	4 30 76	4 30 77	4 30 78	4 30 79	4 30 80	4 30 81	4 30 82	4 30 83	4 30 84
CIRCLE K **El Paso, Texas**														
Number of Stores	536	678	826	947	1,024	1,049	1,070	1,105	1,158	1,200	1,194	1,211	1,221	2,185
Store Growth in Year	113	142	148	121	77	25	21	35	53	42	-6	17	10	964
Store Days	175,074	221,626	274,554	323,633	359,746	379,359	386,728	396,920	412,971	431,511	435,810	442,015	443,835	567,618
Sales per Day	$535	$582	$588	$592	$634	$598	$634	$711	$799*	$883	$957	$1,003	$1,038	$1,139
Sales Growth $DPD	$+28	$+47	$+6	$+4	$+42	—	$+36	$+80	$+25	$+84	$+74	$+46	$+35	$+101
Pretax Profit $DPD	$33.39	$33.09	$31.35	$27.59	$25.15	$24.99	$33.39	$38.82	$47.53	$73.47	$61.33	$60.75	$54.43	$71.18
After Tax Profit $DPD	$16.54	$17.72	$16.41	$14.68	$13.11	$13.50	$17.87	$20.63	$25.85	$39.28	$32.95	$33.41	$29.94	$38.16
Store Closures	3	6	12	21	12	24	21	12	21	22	28	8	10	31
Gasoline Units			137	510	516	518	601	642	681	726	753	780	798	1,463
$DPD Ranking	1 10	1 10	1 10	3 13	7 13	6 13	1 13	2 13	1 13	1 13	2 12	2 11	4 12	3 11

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 2,185 Circle K stores on April 30, 1981, in 19 Western, Southwestern, Southern, Southeastern, and Midwestern states. Circle K purchased 960 UtoteM stores on December 28, 1983.

1. Food Store Sales were $646,700,000

2. Store Days:
   Store days of stores open all year: 1,221×366 = 446,886
   Store days of UtoteM stores purchased: (12-28-83) 960×125 = 120,000
   Store days for new stores figured for 1 2 year only: 4×183 = 732
   Total store days: 567,618

3. Sales per Store per Day:
   Sales of $646,700,000 divided by 567,618 store days equals average sales of $1,139 per store per day for the year. Store sales do not include gasoline sales.

4. Pretax Profit:
   Pretax profit of $10,404,000 divided by 567,618 store days results in a pretax profit of $71.18 per store per day.

5. After Tax Profit:
   After tax profit of $21,662,000 divided by 567,618 store days results in an after tax profit of $38.16 per store per day.

6. New Stores Planned: At April 30, 1984, 60 new store locations were in developmental stages. In November 1984, the Company will acquire 436 Little General stores.

7. 104 stores are operated by contract operators and the sales are included. This number decreased by 14 stores from the previous year, and 46 stores over the past two years.

8. Profit figures include the results of two outdoor advertising companies acquired during Fiscal 1981. The Company states the effect is "not significant."

Liquidity and Capital Resources

	1984	1983	1982
Current Assets	119,631	74,246	65,862
Current Liabilities	99,637	54,280	42,478
Current Ratio	1.20	1.37	1.55
Long-Term Debt (including capital leases)	157,007	40,548	55,615
Equity	91,567	68,474	61,348
Long-Term Debt to Equity Ratio	1.71	.59	.91

Liquidity is a company's ability to generate sufficient cash flow to meet short and long-term needs. Due to the nature of Circle K's business, most sales are for cash and any receivables are rapidly converted to cash. The Company's working capital increased by $5.6 million in fiscal 1982 and would have increased by over $10 million in fiscal 1983 had the Company not decided to repay a $13.4 million note in early fiscal 1984, more than four years prior to maturity, which is classified as a current obligation in the balance sheet as of April 30, 1983. The decision to repay the note resulted in a decrease in working capital of $3.4 million. Working capital remained approximately the same in fiscal 1984.

The improvement in the long-term debt to equity ratio and the decrease in the current ratio in 1983 compared to 1982 is the result of the Company's decision to repay the note as described in the preceding paragraph. The increase in 1984 to the long-term debt to equity ratio is a result of the October 1983 issuance of $50,000,000 of 9% Convertible Subordinated Debentures and of the draw of $50,000,000 under the long-term $100,000,000 revolving credit agreement, both of which were used to fund the acquisition of UtoteM discussed in Note (2) of Notes to Consolidated Financial Statements.

At April 30, 1984, the Company had $105,000,000 available in unsecured lines of credit and similar agreements with interest rates approximating prime, as determined by the participating lending institutions at the time of borrowing. At April 30, 1984, the Company had $10,000,000 drawn against these lines. The Company considers its internally generated cash flow sufficient to meet the normal working capital requirements of its operations.

Capital spending plans include investments to strengthen the Company's position in the convenience store business and to develop and expand operations. Investment in property, plant and equipment for the three year period was $29,922,000 in 1984, excluding the UtoteM purchase as described in Note (2) of Notes to Consolidated Financial Statements, $18,887,000 in 1983 and $21,309,000 in 1982. The reduction in 1983 was due to unfavorable economic conditions.

During the current year, the Company plans to increase its capital expenditures to expand the operational base by accelerating both the remodeling of older stores and a more aggressive posture in the selection of new store sites. For 1985, the Company expects to spend approximately $30 million for land, buildings and equipment for new store construction and approximately $20 million for existing store equipment and remodeling.

The Company plans to finance these expenditures with internally generated funds and bank borrowings. The Company also contemplates the issue of additional securities, the exact nature, timing and amount of which have not yet been determined.

The Company has historically entered into lease agreements for substantially all of its stores and other properties. The Company's policy has been to limit its investment in land and buildings in the belief that its capital may be more profitably employed in store operations. All leases are accounted for in accordance with Financial Accounting Standards Board Statement No. 13 (SFAS No. 13). The Company considers these leases to be valuable assets and an integral component of its capital structure.

Inflation Impact

Information on the effects of changing prices is presented in the Supplementary Information included in the Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Sales established all time highs in each of the past three years. The figures contained herein have included UtoteM, Inc. since the date of acquisition.

	1984		1983		1982	
(In Millions)	Sales	% Gain	Sales	% Gain	Sales	% Gain
Grocery	$ 646.7	40.43%	$460.5	3.95%	$443.0	6.18%
Gasoline	382.2	33.03%	287.3	1.38%	283.4	24.79%
	$1,028.9	37.59%	$747.8	2.90%	$726.4	12.78%
Total Number of Stores	2,185		1,221		1,211	

For the five year period ended April 30, 1981, the Company experienced annual increases in revenues of approximately 20%. In 1982, the economic recession began to affect the Company's markets and the rate of growth in sales declined from 20.89% in 1981 to 12.78% in 1982 to 2.90% in 1983 and increased 37.59% in 1984. Over the last five years, the Company has averaged an 18.59% increase in sales.

In order to mitigate recessionary pressures and the effect of increased competition, the Company more competitively priced higher traffic items, such as beer, milk, bread, soft drinks, cigarettes and gasoline, and the Company has expanded its product mix to include a wider variety of fast food items.

Gasoline is the largest single product category in the product mix, accounting for 37.1%, 38.4% and 39.0% of total sales in 1984, 1983, and 1982, respectively. The following table summarizes gasoline sales in dollars and gallons and the number of stores dispensing gasoline for the past three years (in millions except the number of stores):

	1984	% Gain	1983	% Gain	1982	% Gain
Sales	$382.2	33.0	$287.3	1.4	$283.4	24.8
Gallons	346.7	35.9	255.2	10.6	230.7	19.8
Number of Stores	1,436		798		768	

The number of gallons sold increased in each of the three years as a result of the Company's competitive pricing policies and the increased number of stores dispensing gasoline; however, gasoline revenue did not increase as rapidly because of lower retail prices resulting from an over supply of oil products and the highly competitive position taken by gasoline marketers. Although gasoline margins improved in fiscal 1984 over those in 1983, they were still lower than those experienced in fiscal 1982.

Gross profits as a percentage of sales were 24.10% in 1984, 23.22% in 1983 and 23.27% in 1982. Circle K's gross profits excluding gasoline were higher in each of the three years due largely to increased sales of higher margin products such as fountain drinks, fast foods, candy and snack items and Company produced items such as soft drinks, deli-style sandwiches and ice. Increased gasoline sales, a high volume, fluctuating gross profit, product caused margins to decline slightly between 1982 and 1983, but the increased sales of fast foods in 1984 and improving gas margins resulted in a 3.9% increase in gross profits in 1984 over 1983.

Total expenses increased 38.19% in 1984, 5.94% in 1983 and 11.57% in 1982. Inflation, which impacted operating expenses such as wages and associated payroll costs and utilities, was the main cause for the 1982 increase. Programs instituted in 1982 to control the rate of increases in operating and administrative expenses have taken effect and the increase was held to less than 6% in 1983. The increase in 1984 is due to the inclusion of operating and administrative costs of the companies acquired in fiscal 1984 (principally UtoteM). Total expenses as a percentage of sales were 20.01% in 1984, 20.02% in 1983 and 19.45% in 1982, showing an overall consistency in maintaining those costs.

Net earnings were $21.7 million in 1984, $15.2 million in 1983 and a loss of $15.3 million in 1982. Primary earnings per share were $1.80 in 1984, $1.37 in 1983 and a loss of $1.48 in 1982.

The loss of $15.3 million resulted from the writedown of the Company's interest in Nucorp Energy, Inc. as more fully described in Note (6) of Notes to Consolidated Financial Statements.

To Our Shareholders

The year just completed was the most active, productive and profitable twelve month period in our thirty-three year history and was the year in which your Company passed the billion dollar sales plateau.

During that time, we completed the purchase of UtoteM, Inc. That acquisition—for $226.8-million in stock, cash, notes and warrants—expanded our geographic areas of operation from twelve to nineteen states and increased our number of stores from 1,221 to 2,185.

Circle K Corporation established records for sales and profitability during fiscal 1984. Better cost containment programs, more aggressive marketing strategies and the economies of scale which resulted from the UtoteM acquisition all helped produce a record net income of $21,662,000 on sales of $1,028,853,000 for the twelve months ended April 30, 1984.

We also achieved record operating results during the fourth quarter of fiscal 1984. During the three months ended April 30, 1984, your company recorded net income of $6,440,000 on sales of $355,956,000.

We added depth and expertise to the Company's management. By successfully integrating the former management of UtoteM, Inc. into our Circle K management team, we substantially improved our operating expertise, efficiency and competitive position in the marketplace.

Management initiated several actions which dramatically improved our immediate operating results and laid a foundation for long-term growth. Foremost among those actions was the purchase of the gasoline dispensing equipment and contracts of two companies which had been consignment suppliers to 395 of the UtoteM stores. This action effectively doubled our profitability on gasoline sales at those locations.

In March 1984, we purchased eighteen Thrifty Oil Company self-service gasoline stations in Arizona. Each of these high volume outlets occupies a prime location and we intend to build full convenience stores on these parcels during the next few months.

Other actions initiated by management improved an already strong balance sheet. In April, we reached an agreement whereby Circle K will sell the buildings, land and equipment of approximately 370 of our stores. We will then lease those stores from the buyer for a period of fifteen years with an option to repurchase them at stipulated intervals beginning after the end of the second year.

The principal effect of this transaction was the elimination of $73,000,000 in 12½% installment notes and the service burden from our long-term debt schedule.

In May, the Company called its 4½% convertible subordinated debentures and thereby removed another $6,250,000 of indebtedness from the balance sheet.

We have begun a long-range store modernization program. Under this program, existing stores will be remodeled to make them more space-efficient, more inviting and attractive to customers. All new stores are of the modern design which is discussed and shown in detail on Page 6.

We have taken a meaningful step toward international expansion. In January, we announced a joint venture partnership with the Uny Company of Nagoya, Japan. The purpose of the joint venture is to explore the feasibility of establishing licensees throughout selected Asian, European and South American countries and Australia. We have established the headquarters of Circle K International in Hong Kong and a highly experienced individual is conducting the necessary studies and negotiations.

Our Board of Directors has been expanded and strengthened. Four new Directors have joined our Board. Each has brought with him specialized expertise and knowledge. The contributions of John Harbin, William Franke, Carl Lindner and Keith Lindner have been invaluable since they joined our Board.

As we look to the future, our goals are aggressive but realistic. Under the leadership of Fred Hervey, Circle K became a highly profitable and respected operator. When I became your Chairman on July 1, 1980, Mr. Hervey and I agreed that my mission was to provide the energy and leadership to carry Circle K to even greater productivity and profitability. To do that, we have redefined the mission of the Company and developed certain strategies to accomplish specific goals.

Those strategies include the dedication to:

- ☐ Continue the expansion of our main line of business—our 2,385 highly successful convenience store outlets.
- ☐ Broaden our lines of business by selectively entering those businesses which are compatible to our expertise.
- ☐ Expand our main line of business and those which we may choose to enter at a rate substantially greater than our industry.
- ☐ Protect and expand our market position.
- ☐ Increase revenues at 15% or greater per year.

I am proud of the progress which Circle K has made during the year just concluded. Our accomplishments have been many. Our improvements have been dramatic. Our results have been outstanding. These things have been accomplished because of the thorough understanding by our management team of our goals and strategies, their support of our corporate mission and their dedication to getting the job done.

I appreciate your support and pledge to continue to work toward making Circle K the standard of management in our industry and to achieve the highest levels of profitability and return on investment for you, our shareholders.

Sincerely,

Karl Eller

Karl Eller
Chairman

[redacted]

Data Taken from the Annual Report and 10K for the Year Ended 1/28/84

Inventory Accounting: LIFO (Except Gasoline)

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
						Year Ended								
			1/28/74	1/27/74	1/03/75	1/01/76	1/30/77	1/29/78	1/28/79	1/03/80	1/02/81	1/01/82	1/30/83	1/28/84
LIL' CHAMP **Jacksonville, Florida**														
Number of Stores	15		59	80	91	100	108	122	130	138	148	162	170	183
Store Growth in Year			44	21	11	6	8	14	8	8	10	14	8	13
Store Days			13,527	25,378	32,270	35,308	37,964	41,860	45,864	49,710	52,052	56,120	60,424	64,246
Sales per Day			$525	$505	$511	$532	$553	$550	$544	$612	$682	$736	$828	$956
Sales Growth $DPD				$-20	$-9	$-9	$+21	$-3	$-6	$+68	$+70	$+56	$+92	$+128
Pretax Profit $DPD			$42.02	$41.11	$36.50	$32.19	$32.36	$33.44	$37.23	$41.17	$41.39	$48.25	$51.68	$62.15
After Tax Profit $DPD			$18.59	$21.36	$19.26	$16.76	$17.04	$18.57	$20.61	$23.60	$24.57	$27.47	$29.44	$34.12
Store Closures						1	1	0	0	0	0	0	0	1
Gasoline Units							20	25	31	32	44	66	82	101
$DPD Ranking			Not Included	2-13	4-13	2-13	2-13	4-13	5-13	4-13	5-12	5-11	5-12	4-11

BASIS FOR PROFIT PER DAY DETERMINATION

1. The annual report states that merchandise sales were $61,127,000.

2. Store Days:
   Store days of stores open all year: 170×364 = 61,880
   Store days of new stores figured for 1-2 year only: 13×182 = 2,366
   Total store days: 64,246

3. Sales per Store per Day:
   Sales of $61,127,000 divided by 64,246 store days equals average sales of $956 per store per day.

4. Pretax Profits:
   Pretax Profits of $3,993,000 divided by 64,246 store days equals a pretax profit of $62.15 per day.

5. After Tax Profit:
   After tax profits of $2,192,000 divided by 64,246 store days results in an after tax profit of $34.12 per store per day.

6. Thirty Five stores open 24 hours a day.

7. Video commissions of $200,250 equal $3.12 per store per day. This represents a decline of $66,870 or -$1.30 per store per day.

To Our Shareholders:

Fiscal 1984, which was marked by a 24 percent increase in earnings per share on a 26 percent increase in net sales, has proven to be another outstanding year for Lil' Champ. All significant benchmarks, including sales, profitability, assets and shareholders' equity, scored major gains as a strong and improving economy enabled us to step up our growth.

We added 13 stores to our total during the year, compared to eight in fiscal 1983, with much of this expansion funded from earnings and cash flow.

Sales rose to $80,290,000 from the $63,523,000 of the previous year while net income and earnings per share increased to $2,192,000, or $1.26 per share, from $1,779,000, or $1.02 per share. Earnings per share have been adjusted to reflect our two three-for-two stock splits, which were distributed in January 1983 and January 1984.

The economies of our North and Central Florida territories, which held up remarkably well during the recent recession, currently reflect the strength of the national recovery. Although economic forecasting these days is a more than chancy business, indications at this point are that this strength will continue through the current fiscal year. If so, we can look forward to another excellent year for Lil' Champ.

More to the point perhaps is that our experience since the company's founding more than a decade ago has been that economic conditions in our areas of operation have a dynamism of their own which enables them to substantially outdo the national economy in periods of overall downturn. To this can be added the fact that recent trends indicate an accelerating rate of growth in the northern half of Florida as problems associated with high population density begin to affect other areas of the state.

This is not to say that unbridled optimism is in order. The growing volatility of the national economy over the past few decades continues to place a premium on experienced, aggressive management with an orientation toward financial conservatism. Lil' Champ continues to emphasize tight operational and financial controls as well as rapid-response attention to profit margins.

We are using our strong market position to maintain and upgrade the high quality of our operation in personnel, plant and inventory. At the same time we have reduced markups to assure price competiveness and gross profitability. We continue to stress increased sales of gasoline, which while carrying lower margins than other items improves store traffic and gross profit.

Our continued emphasis on quality and sound growth has enabled us to maintain and bolster our standing as the Cadillac of the convenience-store industry. We expect to remain with this policy, firmly refusing to press for growth in number of units at the expense of profitability—the only true measurement of management success. Selectivity, therefore, continues to be our guiding principle in new-store location, not least because increased costs have made the investment in each new unit larger than ever before.

The current business climate and our month-to-month results indicate another excellent year in fiscal 1985. However, rest assured that we will maintain our basically conservative posture and our overriding dedication to steadily increasing profits.

Julian E. Jackson
Chairman and President

There was an overall increase in operating expense of 17% over 1983 and 35% over 1982. This increase was due primarily to the increase in the number of stores. Increases and decreases by various components are shown below:

	1984 over (under)	
	1983	1982
Stores operating expenses	18%	36%
General and Administrative expenses	(7%)	6%
Interest expense	61%	173%

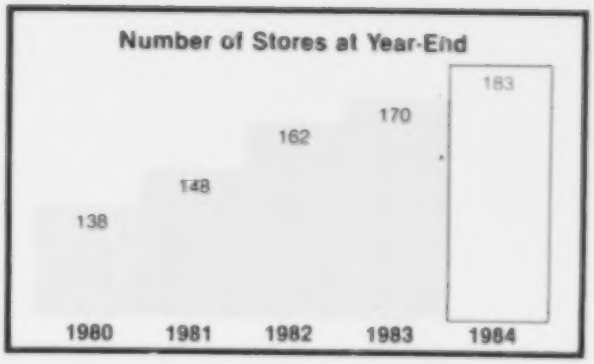
Although we continued our expansion program, opening 17 new stores in 1984, no additional funds were borrowed. We were able to accomplish this through the sale and leaseback of a number of the newly constructed stores as well as the sale and leaseback of several stores constructed during the previous year. The terms of the leases appear to be favorable and should prove to be advantageous in view of the apparent trend of a rise in interest rates.

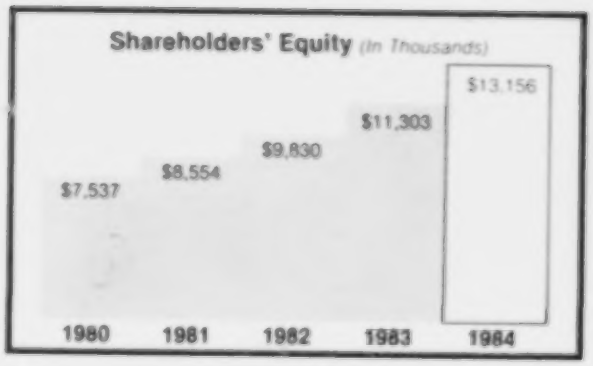
During the fiscal year 1984, gross expenditures for land, new buildings and equipment amounted to $5,702,000.

Several pieces of surplus real estate were sold for part cash, the unpaid portion being covered by interest bearing mortgages of varying periods.

Cash dividends paid per share in each of the fiscal years 1984, 1983 and 1982 were respectively 19 cents, 17 cents and 16 cents, adjusted to reflect the three-for-two stock splits distributed in January 1984 and 1983 and the 5% stock dividend paid in 1982.

Shareholders' equity at the end of fiscal year 1984 increased $1,853,000 over fiscal year 1983. Book value per share at the end of fiscal year 1984 amounted to $7.54 as compared to $6.48 at the end of the previous fiscal year. Both these values are based on actual shares outstanding adjusted for the stock splits.





Management's Discussion and Analysis Of Financial Condition and Results of Operations

As has been the pattern in the past years, sales continue to show dramatic increases, establishing new records. Sales for the fiscal year 1983 increased 28% over fiscal year 1982. Sales for the fiscal year 1984 increased 26% and 62% over fiscal years 1983 and 1982 respectively.

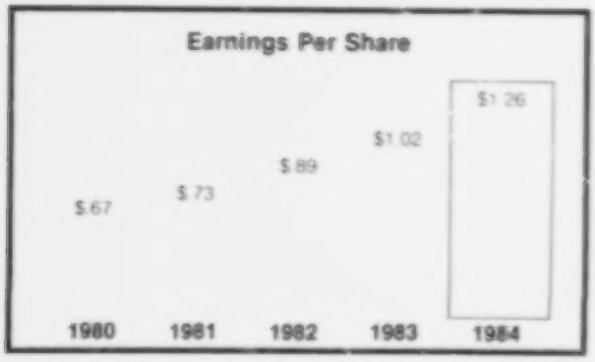
The opening of 17 new stores, all of which were equipped with gasoline dispensing equipment, plus the addition of gasoline dispensing equipment to one existing store was a substantial factor in the sales increase. At the end of fiscal year 1984, 68 stores were equipped with Company owned gasoline dispensing equipment compared with 49 at the end of fiscal year 1983. The number of non-company owned gasoline installations remained at 33, for a total of 101 stores at which gasoline is dispensed. This represents 56% of the stores in operation at the end of fiscal year 1984 as compared with 48% of the stores at the end of fiscal year 1983. The reassessment program of the older stores has been completed and gasoline dispensing equipment has been installed in all such stores where possible. No new site has been acquired in the last two years unless the capability of installing gasoline dispensing equipment existed.

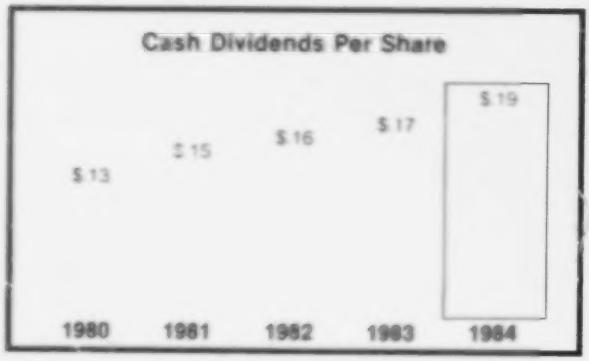
Other income for the fiscal year 1984 increased 20% and 40% over 1983 and 1982 respectively. Gasoline commission, which represented 14% and 19% of other income for fiscal years 1983 and 1982, represented only 12% for fiscal year 1984. Gasoline commissions from non-owned facilities for the fiscal year 1984 declined 2% and 12% from 1983 and 1982 respectively. Commission from electronic games, which represented 24% and 20% of other income for the fiscal years 1983 and 1982 respectively, represented only 15% for the fiscal year 1984. Commissions from electronic games declined 28% from 1983 but was 6% greater than 1982. An effort is being made by the electronic game industry to reverse this trend and it is hopeful that a degree of success will be realized.

The sales and gross profit (stated in thousands) by categories are as follows:

	1984	1983	1982
Sales			
In-store	**$81,427**	$50,005	$41,534
Gasoline	**18,863**	13,518	8,219
Gross Profit			
In-store	**$17,720**	$15,108	$13,212
Gasoline	**865**	501	346
% to Sales			
In-store	**29.80%**	30.22%	31.81%
Gasoline	**4.59%**	3.72%	4.21%

The gross profit rate on in-store sales continued to decline in 1984. However, the increased sales that accompanied the lower markup enabled us to increase the dollar factor. Another factor in the declining rate of gross profit is the increased competition from petroleum products marketers who are converting former service stations into convenience stores. During the past year the gasoline market appeared to stabilize, allowing for a larger margin of profit. The addition for the current year to the LIFO reserve reduced the gross profit percentage on in-store sales .55% as compared with .65% and .50% for the fiscal years 1983 and 1982 respectively. The LIFO principle was first adopted in the fiscal year 1980 and has been used for in-store merchandise only. Gasoline inventory is valued on the FIFO principle.





Data Taken from the Annual Report
and 10K for the Year Ended 12-31-83

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	12 31 70	12 31 71	12 31 72	12 31 73	12 31 74	12 31 75	12 31 76	12 31 77	12 31 78	12 31 79	12 31 80	12 31 81	12 31 82	12 31 83
SOUTHLAND CORPORATION **Dallas, Texas**														
Number of Stores	3,734	4,114	4,455	4,801	5,171	5,579	5,953	6,357	6,599	6,805	6,895	7,002	7,165	7,299
Store Growth in Year	197	380	341	346	370	408	374	404	242	206	90	107	163	134
Store Days	1,327,056	1,432,450	1,564,013	1,689,393	1,826,475	1,962,079	2,110,356	2,246,373	2,361,349	2,446,127	2,507,100	2,535,749	2,585,396	2,639,613
Sales per Day	$564	$598	$624	$653	$708	$731	$813•	$841	$950	$1,087	$1,219	$1,394	$1,532	$1,656
Sales Growth $DPD		$+34	$+26	$+29	$+55	$+23	$+82	$+28	$+109	$+137	$+132	$+175	$+138	$+124
Pretax Profit $DPD	$17.15	$19.35	$20.38	$20.64	$25.15	$30.04	$32.19	$35.71	$40.79	$38.42	$46.41	$60.67	$59.34	$55.58
After Tax Profit $DPD	$8.50	$9.97	$11.09	$10.17	$12.64	$14.99	$16.09	$18.00	$20.66	$28.13	$27.05	$34.17	$33.97	$39.46
Store Closures	139		83	80	142	158	154	254	308	460	281	267	271	364
Gasoline Units	75	149	356	463	502	721	1,235	1,573	1,857	2,107	2,246	2,517	2,827	3,007
$DPD Ranking	3 10	4 10	4 10	6 13	6 13	3 13	3 13	3 13	1 13	7 13	1 12	3 11	3 12	5 11
Percentage of stores that sell gasoline	2.0%	3.6%	8.0%	9.6%	9.7%	12.9%	20.7%	21.7%	28.1%	30.9%	32.5%	35.9%	39.5%	41.2%

•Includes gasoline sales

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 7,299 7-Eleven stores on December 31, 1982 in 42 states, the District of Columbia, and Canada, of which 4,327 were company-operated stores and 2,838 were franchise stores.

1. The annual report states that 7-Eleven store sales without gasoline were $4,370,000,000.

2. Store Days:
   Store days of stores open year-round: 7,165×365 = 2,615,225
   Store days for new stores figured for 1/2 year only: 134×182 = 24,388
   Total store days: 2,639,613

3. Sales per Store per Day:
   Sales of $4,370,000,000 divided by 2,639,613 store days equals average sales of $1,656 per store per day for the year.

4. The annual report states that in 1983, 85% of the company's total operating profits were from the stores group. Total pretax earnings for Southland were $185,589,000. If we assume that pretax earnings are in the same relationship as operating profits, the stores group pretax profits [illegible] stores group is from 7-Eleven. This year the report does not state the percentage. If we assume that 100% of the stores group profit was from 7-Eleven, the $DPD would be $59.76 ($157,750,650 divided by store days of 2,639,613). If we assume that 93% of the stores group profits this year are from 7-Eleven, the $DPD would be $55.58 per 7-Eleven store (93% of $157,750,650 equals $146,708,060, which when divided by 2,639,613 7-Eleven store days equals $55.58). Since there are other store operations in the stores group, we have chosen the latter approach.

5. After Tax Profits:
   After tax profits for Southland are 71% of the pretax profits. Total after tax earnings for Southland were $131,768,000. If we assume that after tax profits bear the same relationship to operations as pretax profits, after tax profits for the stores group would be $112,002,800 (85% of $131,768,000). If 93% of the stores group after tax profits are from 7-Eleven, we have the following calculation of after tax $DPD profits: 93% of $112,002,800 equals $104,162,600 divided by 7-Eleven store days of 2,639,613, which equals $39.46). Southland receives the equivalent of $2.86 per store per day in royalty payments from 7-Eleven Japan Co., Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Acquisition of Citgo Petroleum Corporation
On August 31, 1983, Citgo Petroleum Corporation became a wholly owned subsidiary of the Company, and its results of operations are included in the Company's financial statements subsequent to that date. The purpose of this acquisition was to strengthen the Company's position as a convenience store retailer by increasing its efficiency through improved access to adequate gasoline supplies. In addition, it allowed the Company to substantially expand the wholesale gasoline business of its Gasoline Supply Division, which was formed in December 1981 to better control the supply and distribution of gasoline to 7-Eleven stores at competitive market prices. The Citgo operation, with the exception of its Quik Mart retail gasoline and mini-convenience store locations, has been combined with the Gasoline Supply Division to form the gasoline refining and supply segment. The Quik Mart locations have been included in the stores segment.

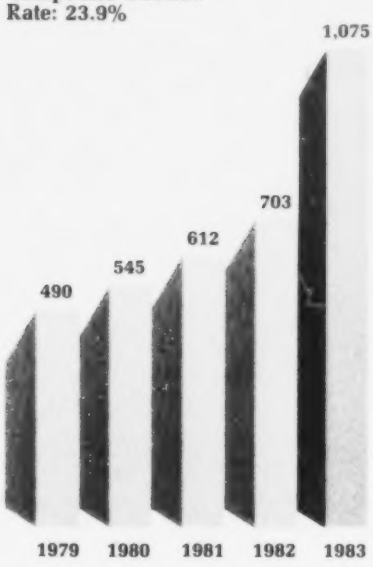
RESULTS OF OPERATIONS:

Revenues
Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) established record highs in each of the past three years. The four months of operations for Citgo were responsible for $1.20 billion or 17.7 percentage points of the increase in 1983.

Revenues (Millions)	1983	% Gain	1982	% Gain	1981	% Gain
Net sales:						
Stores	**$6,683.7**	**17.1**	$5,708.1	11.6	$5,114.5	19.1
Gasoline refining and supply	**1,554.7**	**186.5**	542.6	539.9	84.8	—
Dairies	**345.6**	**(2.6)**	355.0	(3.6)	368.2	2.7
Special operations	**188.1**	**24.4**	151.2	19.9	126.1	18.9
Total sales	**8,772.1**	**29.8**	6,756.9	18.7	5,693.6	19.6
Other income	**32.9**	**29.4**	25.5	(37.0)	40.5	69.5
TOTAL	**$8,805.0**	**29.8**	$6,782.4	18.3	$5,734.1	19.9

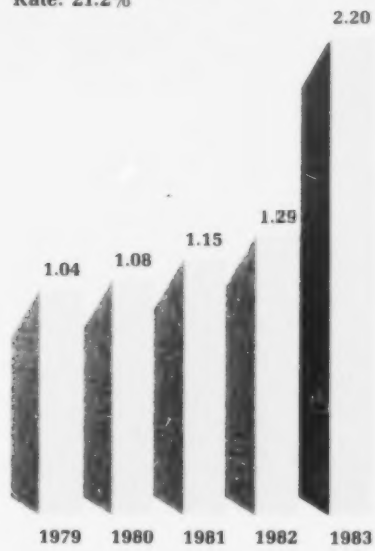
TOTAL SHAREHOLDERS' EQUITY (Dollars in Millions)

Compound Growth Rate: 23.9%



TOTAL CAPITALIZATION
(Dollars in Billions)

Compound Growth Rate: 21.2%



The stores segment accounted for 76%, 84% and 90% of total sales in 1983, 1982 and 1981. 7-Eleven volume in 1983, representing 68% of total sales, increased 12.1% to $5.94 billion, following gains of 12.1% to $5.30 billion in 1982 and 19.1% to $4.73 billion in 1981.

For 1983, 7-Eleven merchandise sales (which do not include amusement games) were up 12.5% to $4.37 billion after increases of 11.9% and 14.3% in 1982 and 1981. These gains resulted from inflation and real growth and the net addition of 134, 163 and 107 7-Eleven stores in 1983, 1982 and 1981. More efficient use of selling space, increased advertising, new products and services, and traffic-building competitive pricing of selected items, especially milk, case beer, carton cigarettes and soft drinks, contributed to the gains. Sales increases in 1983 and 1982 reflected a slowing of the inflation rate in 7-Eleven's merchandise mix to 5% in both 1983 and 1982, down from 8% in 1981.

Self-serve gasoline, the largest single product category in the 7-Eleven sales mix, was 25.5% of 7-Eleven stores sales in 1983, up over the 25.3% recorded in both 1982 and 1981.

7-Eleven Gasoline	**1983**	**% Gain**	1982	% Gain	1981	% Gain
Sales (Millions)	**$1,516.6**	**13.1**	$1,341.5	12.2	$1,195.4	30.9
Gallons (Millions)	**1,361.2**	**17.7**	1,156.1	20.9	956.0	20.6
Number of stores	**3,007**	**6.4**	2,827	12.3	2,517	12.1

Gasoline sales increased in 1983 and 1982 despite lower retail prices because of higher gallonage per store and a larger number of stores with gasoline. In 1981, gallonage and price increases accounted for the sales gain.

In addition to the 7-Eleven stores with self-serve gasoline, the Company operates 390 self-serve, high-volume retail gasoline units which offer selected convenience items. At year-end, these included 39 Super-7 locations as well as 351 Quik Mart locations. Together, these units added 212 million gallons to total retail volume in 1983.

Sales to outside customers for the gasoline refining and supply segment accounted for 18% of the Company's total sales in 1983. During its first full year of operation in 1982, the Gasoline Supply Division accounted for 8% of total sales.

The dairies segment accounted for 4% of total sales in 1983, 5% in 1982 and 6% in 1981.

The special operations segment represented 2% of total sales in each of the three years.

Other income (area license royalties, interest income, equity earnings of pipeline companies and affiliates, and net gain on sale of assets no longer of use to the Company) is included in total revenues. Other income rose 29.4% in 1983 due to Citgo's equity earnings of pipeline companies which more than offset a decline in interest income. In 1982, other income decreased 37.2% because of reduced interest income caused by the deployment of investable cash into fixed assets. Other income was up 69.2% in 1981 because of increased interest income resulting from high interest rates and substantial levels of investable cash.

Gross Profits and Margins

Gross profits (sales less cost of goods sold) were up 13.4%, 13.5% and 15.9% compared with sales gains of 29.8%, 18.7% and 19.6% in 1983, 1982 and 1981. For the same periods, gross margins (gross profits divided by sales) were:

Gross Margins (Percentage)			
QUARTERS	**1983**	1982	1981
First	**18.66**	19.34	20.86
Second	**20.84**	21.46	22.93
Third	**19.45**	21.84	22.48
Fourth	**14.84**	20.41	20.65
Year	**18.18**	20.82	21.76

In 1983, gross margins for the Company declined primarily because of decreases in retail and wholesale gasoline margins and amusement game revenues. The third and fourth quarters were also affected by Citgo's low-margin high-volume business. Gross margins declined in 1982 mainly due to the decreases in retail gasoline margins and the addition of low-margin wholesale gasoline sales resulting from the formation of the Gasoline Supply Division in December 1981. The Company's gross margins declined .70 percentage points in 1981 because of increases in gasoline sales as a percentage of total 7-Eleven sales and lower retail gasoline margins.

Gross margins for 7-Eleven merchandise (which does not include amusement games) improved slightly in 1983 due to increased sales of high-margin products such as fountain soft drinks, non-foods, candy and snack items. However, slightly lower gross margins for gasoline and a decrease in amusement game revenues caused a decline in the total 7-Eleven gross margin. In 1982 and 1981, the total 7-Eleven gross margins declined, in spite of increased amusement game revenues, as a result of competitive pricing of selected items and lower gasoline gross margins.

Selling, General and Administrative Expenses
In 1983, 1982 and 1981, selling, general and administrative expenses were up 14.9%, 11.9% and 16.4%, compared with gross profit dollar gains of 13.4%, 13.5% and 15.9%. For the same periods, the ratios of these expenses to sales were:

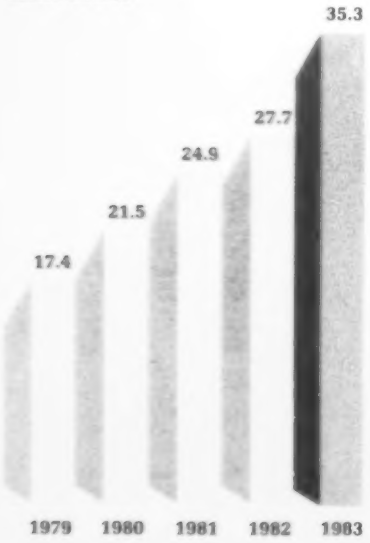
Selling, General and Administrative Expenses (Percentage)

QUARTERS	**1983**	1982	1981
First	**17.38**	17.78	19.43
Second	**17.17**	17.24	18.46
Third	**15.31**	17.55	18.49
Fourth	**12.93**	17.02	17.58
YEAR	**15.38**	17.39	18.44

Increases in wholesale refined product sales, primarily from Citgo, which have lower associated selling expenses, caused selling, general and administrative expenses to decrease 2.01 to 15.38% in 1983. The ratio of selling, general and administrative expenses to sales declined 1.05 to 17.39% in 1982, due in part to the growth of retail and wholesale gasoline sales. In 1981, sales increases and cost reduction measures caused the ratio of selling, general and administrative expenses to decrease .51 to 18.44%.

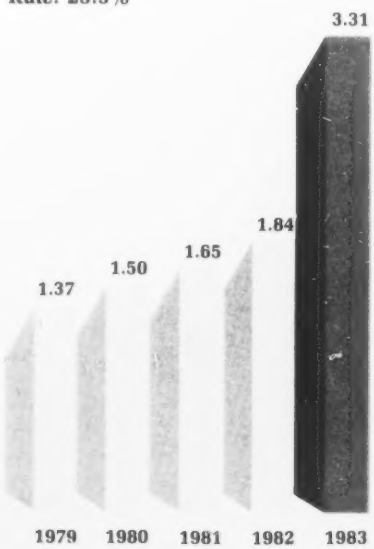
DIVIDENDS
(Dollars in Millions)

Compound Growth Rate: 21.0%



TOTAL ASSETS
(Dollars in Billions)

Compound Growth Rate: 23.9%

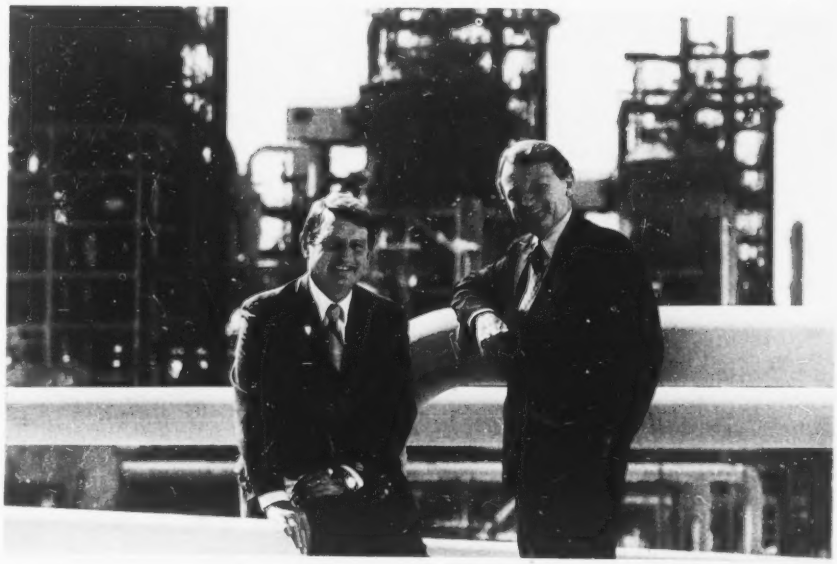


LETTER TO SHAREHOLDERS

■

In 1983, Southland took another major step similar to those which have marked the beginnings of significant periods of growth for your Company.

We believe that Citgo Petroleum Corporation, which became a wholly owned subsidiary of Southland on August 31, will contribute to the Company's future in much the same way as did 7-Eleven expansion into the Florida and Washington, D.C., markets in the 1950s and the West Coast and other major markets in the 1960s, the rapid growth of self-serve gasoline in the 1970s and our more recent emphasis on fast foods marketing.



Jere W. Thompson and John P. Thompson

The acquisition of Citgo does not signal a change in our basic strategy. Southland will remain a marketing-driven company with its major emphasis on convenience retailing. Our aggressive move into automatic teller machines and rapid expansion of self-serve gasoline are but two examples of how 7-Eleven analyzes the needs of the American public and then successfully meets those needs. Convenience retailing has experienced outstanding growth over the years, and ample opportunities remain for further expansion. Southland will continue to lead that growth.

We are pleased to report that for the 22nd consecutive year Southland's revenues and net earnings reached record levels, with Citgo making a positive contribution to 1983 results. Revenues increased 29.8 percent to $8.81 billion, and net earnings of $131.8 million were up 21.9 percent. The Company's effective income tax rate in 1983 was 29 percent, compared with 43 percent in 1982, with the lower rate resulting from investment tax credits and other tax benefits from Citgo.

Primary earnings per share increased 7.9 percent to $3.26 in 1983, while fully diluted earnings were $3.21, a 9.2 percent gain. The average primary shares outstanding for the year were up 12.9 percent to 40.4 million, and average diluted shares increased 11.3 percent to 41.1 million, mainly due to the Citgo acquisition.

1983 was an extremely busy year. In addition to completing extensive negotiations for Citgo and beginning its integration into Southland, we also worked to maintain the prosperity and growth of our traditional businesses. Persistent problems in the energy industry prolonged the recession in Texas, other sections of the Southwest and parts of Canada – historically some of our most profitable markets. Devaluation of the Mexican peso further added to the economic problems of certain southwestern markets. And finally, unfavorable weather conditions in the summer and winter months disrupted normal shopping patterns throughout much of the country. But while 7-Eleven sales and profits in several regions were negatively affected by these factors, the geographic diversity of the stores led to a strong overall performance.

7-Eleven total sales recorded a 12.1 percent gain to $5.94 billion, with merchandise sales up 12.5 percent, including an 8.7 percent increase in stores open a year or more. We were very pleased with this performance

under these difficult operating conditions. Real sales growth of stores open a year or more was 3.4 percent, after adjusting for the effect of inflation, and gross profit margins on merchandise, excluding the impact of lower amusement game sales, strengthened slightly over the prior year.

7-Eleven self-serve gasoline sales again showed excellent growth, with volume up 18 percent over 1982 as average gallonage per store increased nicely and 180 7-Eleven units with gasoline were added. We expect the combined retail volume of 7-Eleven, Super-7 and Citgo Quik Mart gasoline locations to exceed two billion gallons in 1984.

We are happy to report that Chief Auto Parts substantially improved in 1983, recording its first operating profit in June, followed by a profitable third quarter and a strong fourth quarter. Sales continued to increase, while higher merchandise gross margins were realized and expense controls were improved. Chief, which opened its 300th store in January 1984, is expected to finish the year well ahead of 1983 as more "do-it-yourselfers" are attracted to our convenience concept for auto parts retailing.

Sales of the four Southland Distribution Centers exceeded one billion dollars for the first time, including outside sales which increased a substantial 50.2 percent. Construction of a distribution center in southern California will begin in 1984, expanding our system to serve 7-Eleven and other customers on the West Coast.

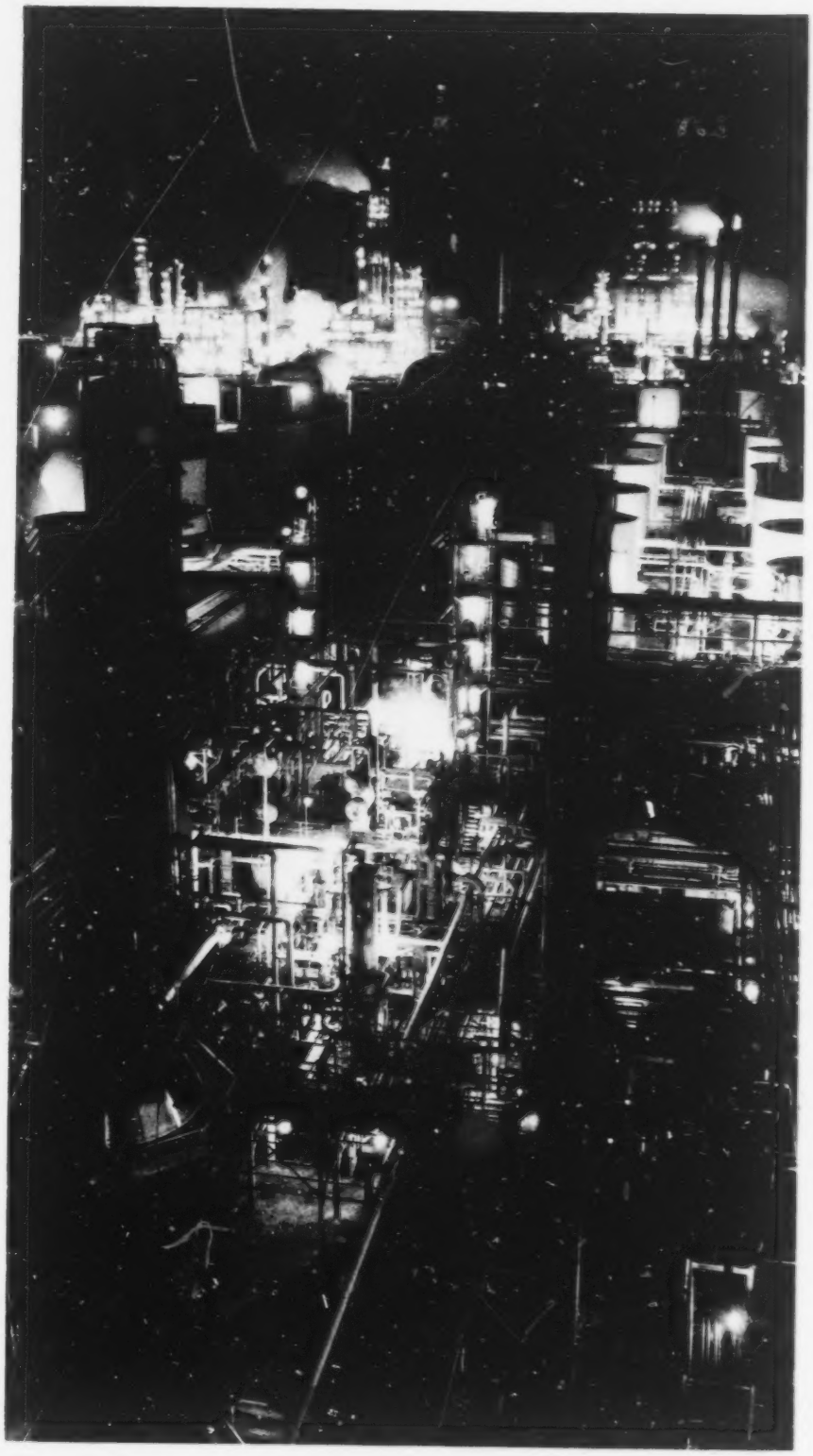
Southland Dairies reported a 36 percent increase in operating profits for the year as they continued their successful strategy of expanding capacity in fast-growing markets, emphasizing high-margin products and closing unprofitable plants. The dairies did an excellent job of replacing about $30 million of sales formerly generated by these plants, and as a result, sales were up a satisfying 2.7 percent for the year.

Southland International continued to show excellent growth. Our licensee in Japan added 1,000 units in the last three years, and recently celebrated the opening of its 2,000th store. In 1983, three new 7-Eleven area license agreements were signed covering Singapore, the Philippines and the United Kingdom. In addition, a new area license was signed for Alaska in early 1984.

Southland's position as the nation's largest independent gasoline retailer is strengthened significantly by the Citgo acquisition. Self-serve gasoline, in addition to providing 25 percent of 7-Eleven sales, increases customer traffic, with one-third of these customers also buying other convenience items.

Looking at 1983 as a whole, most of our traditional businesses recorded solid gains in spite of challenging business conditions. However, several negative factors did affect overall results. The Gasoline Supply Division reported a substantial decrease in operating income due to lower profits on its wholesale business to outside customers. And while amusement games continue to be quite profitable, earnings were significantly less than a year ago due to the increasing sophistication and popularity of at-home games and a slowdown in the introduction of new commercial games.

Southland's acquisition of Citgo was a strategic move to vertically integrate gasoline, which provides more than one-fourth of 7-Eleven sales. Because Citgo fulfills our objective to buy gasoline more efficiently and gives us greater assurance of supply in times of shortage, it will greatly strengthen the Company's position as the nation's largest independent gasoline retailer. We studied a large number of proposals over the past few years, which enabled us to recognize the unique advantages of Citgo and its synergies with our other operations.



Citgo's most important asset is its world-class refinery at Lake Charles, Louisiana, the tenth largest in the United States. A half-billion-dollar capital improvement program begun before the acquisition makes the facility one of the most technologically sophisticated and cost-effective refineries in the world. Southland's estimated cost to complete these capital projects is $110 million, part of which was paid at the acquisition closing.

The most important capital projects are the coking unit and hydrocracker. The coker enables the refinery to process greater quantities of heavy sour crude, which historically has been less expensive and more available than the widely used light sweet crudes. The hydrocracker, which went on line ahead of schedule in March 1984, enhances the refinery's flexibility to increase the yield of more valuable transportation fuels, such as gasoline and jet fuel.

In addition, Citgo operates a lubricants and specialty products division which includes a blending and packaging plant in Cicero, Illinois, and a 65 percent interest in the Lake Charles Cit-Con lubricants refinery, the sixth largest in the United States.

Citgo also owns varying interests in almost 16,000 miles of crude gathering and refined product pipelines and has access to crude supply from three important water routes. Its 32 refined product terminals, located near

Citgo's petroleum products refinery at Lake Charles, Louisiana, is the tenth largest in the United States. Recently completed projects make the refinery one of the most technologically advanced in the world.

major metropolitan markets where 7-Eleven and Quik Mart stores are located, complement the eight terminals in Texas that Southland already owned.

Citgo's wholesale business supplies over 4,600 gasoline outlets and provides jet fuel to a number of major airlines. It is a significant addition to Southland's wholesaling operation.

At completion of the acquisition, Southland issued 9.352 million new shares of common stock, equivalent to 20 percent of the then total outstanding shares, and valued at $258 million on March 23, 1983, when the letter of intent for the acquisition was signed. In addition, Southland paid approximately $519 million for crude oil, refined products and other inventories, various receivables and construction expenditures after May 15, 1983, for capital projects at the refinery.

The financing plan for Citgo will not impair the continued growth of Southland's traditional businesses. Funds for the acquisition, the completion of planned capital projects and working capital needs have been arranged through a $900 million bank credit facility. At year-end, Citgo was utilizing only $600 million, and we currently anticipate a maximum requirement of $750 million. Citgo's credit facility is secured by its stock and nonretail assets.

Looking to 1984, supply contracts for less expensive heavy sour crude, the operation of the refinery's new coking unit for a full year and the completion of the hydrocracker should benefit Citgo's operations. Citgo was a very fine acquisition which provides great potential for Southland, even though we recognize its operating results may be less predictable than the Company's traditional businesses.

Demographic studies have indicated the typical 7-Eleven customer has an avid interest in sports. This orientation has provided the Company with an excellent marketing opportunity to participate in a wide variety of sports programs, the most important of which has been the Olympics. As one of the major corporate sponsors of the 1984 Summer Olympic Games in Los Angeles, we funded the 7-Eleven Olympic Velodrome for cycling competition, the first new facility completed for the Games.

We are also supporting the training program for America's outstanding amateur athletes as a sponsor of the United States Olympic Committee and with a variety of other programs. In addition to funding the construction of a second velodrome, at the USOC training facility in Colorado Springs, Colorado, Southland is sponsoring a series of cycling races and a 7-Eleven cycling team, which includes a number of potential Olympic competitors. We have also established The Olympia Award to honor many talented amateur athletes in 31 sports. We encourage you to read more about your Company's Olympic involvement in the supplement accompanying this Annual Report.

7-Eleven stores will take the spirit of the Olympics to the American people through our 1984 marketing program. In almost 8,000 neighborhoods, our customers will find Olympic information and special merchandise, much of it available

Southland's commitment to amateur athletics includes its sponsorship of the 7-Eleven cycling team and the construction of the 7-Eleven Olympic Velodrome in Los Angeles, as well as a training velodrome at the USOC facility in Colorado Springs.

only at 7-Eleven. Special banners, window graphics and photographs will complete the theme in the stores. In addition, television commercials will highlight 7-Eleven's association with the Olympics.

We are very proud of our role in the Olympics, and we hope you will join the millions of people around the world this summer who will be watching the Games.

Southland has announced plans to build a new corporate office adjacent to our present location immediately north of downtown Dallas. In the 10 years since we completed our current building, Southland has experienced tremendous growth, with revenues multiplying seven times. The new headquarters will enable our corporate and field support staff, which is currently scattered in office space throughout the area, to be housed efficiently at one location, with room to grow well into the next century.

Once the decision was made to stay in the neighborhood near the central business district where we have been for 40 years, we began to study ways we could enhance the environment for our employees and neighbors. Over the last three years, with the help of leading architects, land planners and traffic consultants, we have developed a conceptual design for a 130-acre tract of land surrounding our corporate office.

We anticipate beginning construction this year on our new headquarters, which will be one of the main buildings on the central 24 acres of the development to be called Cityplace. As market conditions warrant, this first phase will be completed with a twin tower and four low-rise buildings, and the remaining land will be gradually developed for mixed commercial and residential use.

Because Cityplace will be developed through a separate subsidiary, Cityplace Development Corporation, we have the flexibility to finance it in the most beneficial manner possible and in a way that will not affect the growth of Southland's other businesses.

Last July, Southland signed the first trade agreement between a major corporation and organizations representing both the Black and Hispanic communities. We expect our agreement with People United to Serve Humanity, the League of United Latin American Citizens and the National Hispanic Leadership Conference to benefit your Company, as well as many of the people it serves. The spirit of

The first phase of Southland's 130-acre Cityplace development, outlined on this land planning model (looking south toward downtown Dallas), will include two towers, one of which will house the Company's new headquarters.

the agreement was exemplified by Southland's contract with the United National Bank of Washington, one of the nation's largest minority-owned and operated banks, to install automatic teller machines in a group of Capitol Division 7-Eleven stores. Significant other opportunities are expected to develop in the areas of minority employment, purchasing, franchising and education.

Southland's capital expenditures, excluding the Citgo acquisition, reached $288.7 million in 1983. Of this total, 66 percent was invested in the stores segment. At the end of the year, almost 8,100 retail units were in operation, including 7,299 7-Eleven stores, with another 167 under construction.

In January 1984, the Board of Directors increased the annual cash dividend rate by 9.5 percent to 92 cents per share. The first quarterly dividend will be paid March 22, 1984, to shareholders of record on March 1.

The dividend rate for 1984 will result in a 33 percent payout of prior-year earnings, which exceeds Southland's 25-30 percent guideline. Because of the additional 10.7 million shares of common stock outstanding primarily due to the Citgo acquisition, the Board felt an exception was appropriate this year. However, our long-range payout policy remains unchanged.

The "Southland family" raises millions of dollars each year for the March of Dimes, the Muscular Dystrophy Association and other community causes.

The "Southland family" continues to be committed to national and local community causes. Our employees, franchisees, customers and suppliers came through for "Jerry's Kids" for the eighth year by raising over $5 million for the Muscular Dystrophy Association Labor Day Telethon, bringing total collections to $30 million. For the second consecutive year, we raised over $1 million for the March of Dimes "WalkAmerica" in April. In addition, Southland Dairies again served as a major sponsor for the "Mother's March" on Birth Defects in January.

We are very pleased that Dr. Armand Hammer joined our Board of Directors last September after the completion of the Citgo acquisition. As chairman and chief executive officer of Occidental Petroleum Corporation, he brings us a wealth of knowledge about the petroleum industry. We also want to express our deep appreciation to Clifford W. Wheeler, who was an employee from 1940 to 1979 and in May is retiring from the Board after 24 years of service. We sincerely thank him for his many contributions to the Company.

Your Company has never been stronger. Southland's traditional businesses continue to grow, and substantial opportunities are presented by the Citgo acquisition. During this challenging year, the performance of our employees, franchisees and suppliers has been outstanding. We appreciate your continued support and look forward to an excellent year in 1984.

John P. Thompson
Chairman

Jere W. Thompson
President

March 20, 1984

The rapidly growing automatic teller machine program is an extension of the stores' 24-hour-a-day neighborhood convenience concept.

Seven-Eleven Japan Co., Ltd., leads area licensee growth with the recent opening of its 2,000th store.

Sam the Eagle, official mascot of the 1984 Olympic Games, is always a big hit with young 7-Eleven customers.

7-Eleven Store Openings Highest In Four Years

At year-end, 7,299 7-Eleven stores were open in 41 states, the District of Columbia and five provinces of Canada. Franchisees operate 36 percent of these units. The Company added 498 stores, with 90 percent located on highly profitable corner sites, and increased the store total by a net of 134 units. Of the 364 stores closed during the year, 28 units in Ohio were transferred to an area licensee, 78 stores were relocated to better sites, 65 were divested as part of a planned withdrawal from five secondary markets and 193 were closed due to changing market patterns and lease expirations.

Changing Customer Needs Determine Product Mix

More than seven million customers each day shop at 7-Eleven because of its most important feature – convenience. Part of that convenience is a product mix that is continually modified to fulfill customer wants and needs. New merchandise items and services are added only after thorough evaluation of their compatibility with the 7-Eleven business concept. In this way the sales and profit potential of each square foot of selling space is maximized.

Long-range market forecasting and planning enable 7-Eleven to react quickly to profitable opportunities, with the most recent example being the introduction of automatic teller machines (ATMs). By year-end, Southland and several leading financial institutions had signed agreements to install ATMs in 1,680 7-Eleven stores, with more being negotiated. The Company's agreement with First Texas Savings Association to install machines in 1,000 Texas stores is the largest project of its kind in the nation and will make ATMs at 7-Eleven available to six million cardholders. 7-Eleven offers a new dimension to the convenience of ATMs, with extended hours and potentially more than 8,000 accessible locations in North America. The machines will generate revenues directly through fees and indirectly through increased customer traffic.

7-Eleven not only leads the nation in sales of brewed coffee but also holds third position in fountain soft drinks, even though the soft drink program was introduced nationally in 1980. 7-Eleven continually works to increase the market share of these and other well-established product categories. New jumbo sizes of 7-Eleven coffee and "Big Gulp" fountain soft drinks were successfully introduced in 1983, and the Company also added hot dogs and nachos, both of which are considered strong growth products in the fast foods area.

National Advertising Provides Maximum Marketing Impact

Southland is the only convenience retailer with sufficient geographic diversity to benefit from the efficiencies of national advertising, and uses product advertising and image-building promotions, such as "America Likes the Freedom of 7-Eleven."

In-store promotions for products such as "Slurpee" resulted in excellent sales gains in 1983. At the same time, advertising emphasizing 7-Eleven's competitive pricing of high-volume, traffic-building

products such as milk, cartons of cigarettes and soft drinks, case beer and other selected items also continued to produce significant sales increases.

In October, Southland introduced its Olympic marketing theme, "The Dream Begins With Freedom," with television commercials featuring top American athletes. This theme, which will highlight many 7-Eleven marketing activities, is an extension of the "Freedom" campaign begun in 1982.

The Company in recent years has become involved in auto racing and a variety of other sports marketing programs because of their appeal to what demographic studies have shown to be the most frequent 7-Eleven shopper, a 25-to-30-year-old male. Because the Olympics are a source of national pride, they appeal to customers of all ages. The 7-Eleven stores, by serving as Olympic information centers and making available special Olympic merchandise, will increase those customers' sense of involvement in the Summer Games.

Employee Training Programs Emphasize Store Productivity

Southland believes that maximum productivity in its stores can only be achieved with knowledgeable franchisees and employees. Three regional training centers, including a new one in Orlando, Florida, supervise field training programs for all levels of employees, from store clerk to district manager. Special programs for franchisees and their employees, including classroom instruction and hands-on experience, are held at two of these centers, in San Diego, California, and Bethlehem, Pennsylvania.

Three New International Area Licenses Signed

Southland International coordinates the activities of 3,030 7-Eleven and other small retail units operated by area licensees or Company subsidiaries in the United States and 10 other countries. The most active licensing areas are the Far East and South Pacific, where license agreements are in effect for six countries.

Seven-Eleven Japan Co., Ltd., which opened its first stores in 1974, added 316 new units for a year-end total of 1,909. Early in 1984, the Japanese licensee celebrated the opening of its 2,000th store, having added 1,000 in the last three years. An area license agreement was signed in April for Singapore, and the first five 7-Eleven stores were operating by year-end. A new license agreement was also signed for the Philippines, and construction began in December on the first two stores in Manila. In Australia, 64 stores were open, up three from last year, and the licensee in Taiwan added a net of four units to bring its total to 62. The Hong Kong licensee operated 59 stores at year-end, an increase of 26 units from 1982.

A new 7-Eleven area license agreement was also signed for the United Kingdom. Top management of the licensee is experienced in wholesale and retail operations in England, and the first stores are expected to open in the London area in the spring of 1984.

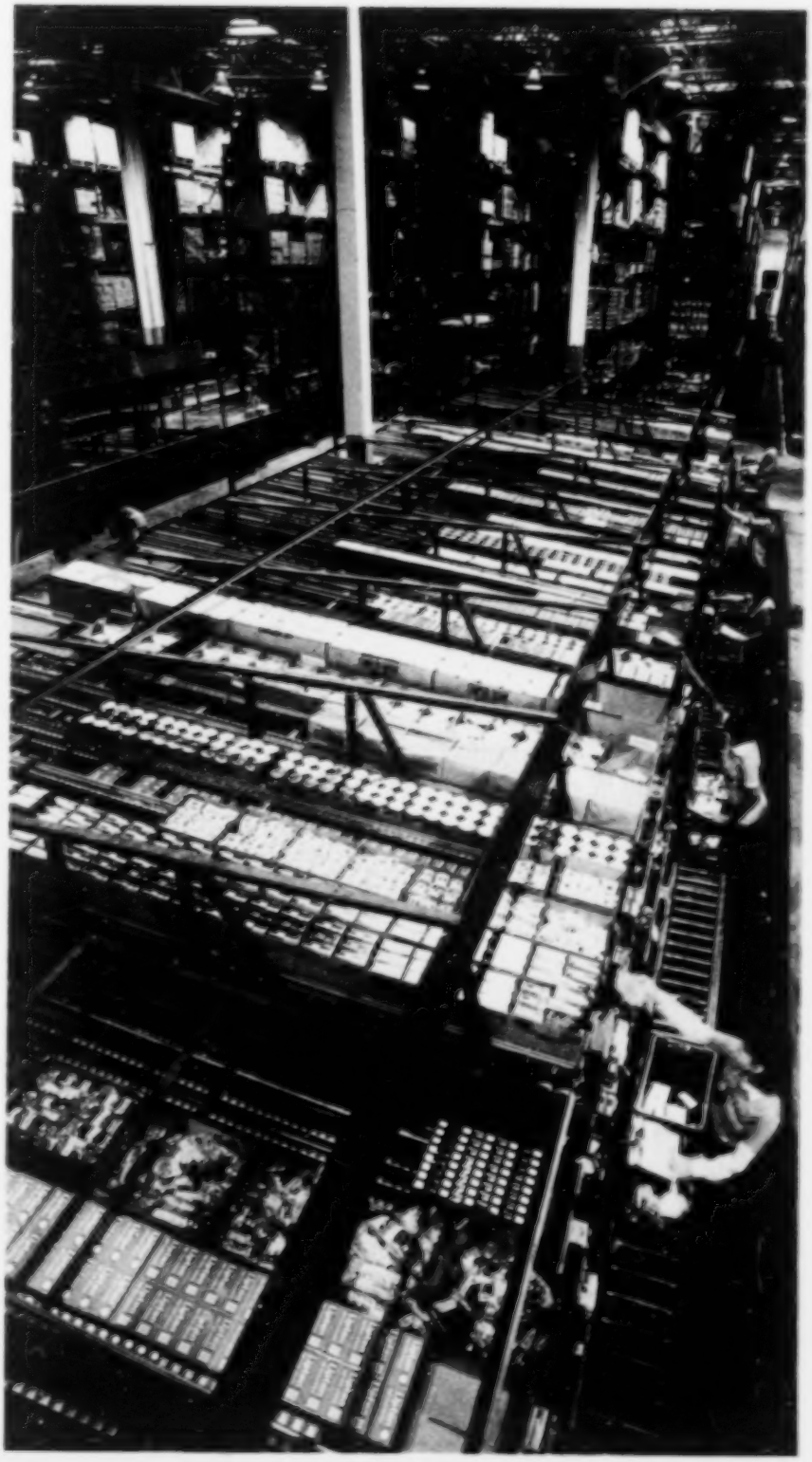
An Olympic decor theme has brought the spirit of the Summer Games to 8,000 neighborhood locations.

centers serve retail and food service customers in 35 states and the District of Columbia, including 4,730, or 65 percent of the 7-Eleven stores.

Sales to outside customers were $244 million, or 23.5 percent of the total. This 50 percent increase in outside sales resulted mainly from growing customer recognition of the value of ordering merchandise from a single supplier offering a selection of over 1,700 items, as well as a 99 percent order fill rate. The centers currently serve over 1,100 food service accounts, including a growing number of full-menu restaurants. In addition to 7-Eleven, they also supply more than 1,600 other convenience stores and retail units, up substantially from 1982.

One of the centers' most important advantages is less-than-case-lot ordering, which enables 7-Eleven and other retail customers to improve inventory turnover, maintain fresher merchandise, and produce higher sales and profits from their limited selling space.

Late in the year, Southland announced plans to construct its first distribution center on the West Coast in San Bernardino, California, with completion scheduled for late 1985. A new, highly efficient design developed from experience with the other centers will permit this center to be smaller in square footage, yet accomplish the same functions as a much larger facility.



Southland's four highly automated distribution centers provide customized merchandise support to 7-Eleven and 2,700 outside accounts.

Southland's United Kingdom subsidiary, R S McColl, which at year-end operated 337 units in Scotland and England, is modernizing and expanding its confectionery, tobacco and news (CTN) stores to strengthen its market position. The Company's subsidiary in Sweden operated 47 7-Eleven/närŏppet stores, four more than last year. Southland also owns an equity interest in 32 Super Siete convenience stores in Mexico, an increase of 13 from 1982.

Southland first undertook its area licensing program in 1968 with a domestic agreement with Garb-Ko, Inc., in Saginaw, Michigan. Fifteen years later, nine North American licensees operate 7-Eleven stores in designated areas in 21 states and five maritime provinces of Canada. These licensees added 37 stores for a total of 515 at the end of the year. In addition, a new license agreement was signed for Alaska in early 1984.

Gristede's Moves To Strengthen Manhattan Market Position

Gristede's has offered premium-quality groceries and personalized service to customers in the greater New York City area for over 90 years. At year-end, 50 Gristede's and 17 Charles & Co. sandwich and gourmet shops were open. During 1983, operations were streamlined to improve profitability and concentrate on serving New York City customers. As part of this strategy, Gristede's closed 17 stores outside Manhattan and its warehouse. Gristede's supermarkets and service stores in Manhattan, where it has excellent name identification and market position, together with its Charles & Co. stores, are scheduled to undergo a modernization program beginning in 1984.

French bread pizza is one of the many items produced at Southland's six food centers for 7-Eleven and other customers.

Food Centers Emphasize New Products, Packaging

Southland produces a complete line of sandwiches and other fast food items such as French bread pizza, burritos and snack cakes at its six food centers, located at each of the distribution centers and in Salt Lake City and St. Louis. The products are distributed nationwide to 7-Eleven and a growing number of outside customers.

The "Aunt Bea's" line of high-quality, single-portion bakery products enjoyed an extremely successful first year, with sales reaching 5.2 million units. In 1983, the food centers also processed 51 percent more flavored syrup for "Slurpee," the semi-frozen carbonated drink available only at 7-Eleven, and expanded sales of the "Smileys Vend-Line" products to vending and concessions accounts.

During the year, the Salt Lake City plant repackaged its very successful burrito line under Southland's new "Casa Buena" label and is introducing three new specialty burritos. Two other repackaging programs were completed during the year, with French bread pizza now being marketed under Southland's "Italini" label and sandwiches under the "Deli Shoppe" name.

Distribution Centers' Total Sales Exceed $1 Billion For First Time

Southland's four regional distribution centers, located in Florida, Illinois, Texas and Virginia, continued to record strong operating gains. Total sales reached a record $1.04 billion, up 17.8 percent. The

PERCENT CONVENIENCE STORE SALES (by Principal Product Category)

	1983	1982	1981	1980	1979
Gasoline	25.5%	25.3%	25.3%	23.0%	17.2%
Tobacco Products	13.8	13.1	12.1	12.3	12.9
Beer/Wine	11.8	11.9	11.7	11.7	12.4
Groceries	10.5	10.8	11.5	12.4	12.6
Soft Drinks	10.4	9.8	10.0	10.1	10.3
Non-Foods	7.5	8.7	8.1	8.0	8.7
Dairy Products	5.7	5.9	6.3	6.7	8.4
Other Food Items	4.6	5.0	5.2	5.6	6.2
Candy	3.9	3.9	4.0	4.0	4.3
Baked Goods	3.5	3.0	3.2	3.4	3.8
Health/Beauty Aids	2.8	2.6	2.6	2.8	3.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The Company does not record sales by product lines, but estimates the percentage of convenience store sales by principal product category based upon total store purchases.

Sales of the stores segment reached a record $6.68 billion, up 17.1 percent, and represented 75.9 percent of Southland's total revenues. Operating profits for 1983 were $236.8 million, up 5.3 percent, and accounted for 85 percent of total operating profits.

Revenues of the retail units included in Southland International are not reported in the stores segment. Equity in earnings of affiliates and royalties from area licensees are included in other income.

7-Eleven Sales Approach $6 Billion For The Year

7-Eleven sales of $5.94 billion were up 12.1 percent and represented 88.9 percent of total sales of the stores segment. Merchandise and amusement game sales increased 11.8 percent in stores open one year or more, and real growth, after the effect of inflation, was 3.4 percent.

The advantages of operating a geographically dispersed retail chain were once again apparent in 1983. Strong sales and profits in the Northeast and Southeast and on the West Coast helped to offset the impact of an energy-related recession in Texas and Canada, as well as the peso devaluation in markets bordering Mexico. In addition, strong sales in regions enjoying favorable weather partially offset the sluggish performance of store regions affected by an unusually rainy summer or harsh winter.

Citgo's 351 Quik Mart high-volume gasoline units also offer selected convenience merchandise.

(Facing page) "The Dream Begins With Freedom" is 7-Eleven's Olympic marketing theme for in-store promotions and national advertising.

7-Eleven Expands Gasoline Market Share

Southland strengthened its position as the nation's largest independent gasoline retailer by significantly increasing gallonage while total gasoline consumption in the United States showed little growth.

Self-serve gasoline volume reached 1.36 billion gallons, an 18 percent increase following a similar gain in 1982. Average gallonage per store showed excellent gains due to increasing awareness of 7-Eleven gasoline quality, competitive pricing and 24-hour accessibility. Growth also resulted from the net addition of gasoline to 180 7-Eleven stores, increasing the total to 3,007 or 41 percent of all locations.

Self-serve gasoline accounted for over one-fourth of 7-Eleven sales and contributed significantly to merchandise sales, with 34 percent of gasoline customers purchasing other items. Even though retail gasoline prices averaged five cents a gallon less than in 1982, cents-per-gallon gross profit was almost equal to the prior year. Total gross profit dollars were up for 1983 due to the increase in gallonage.

While most of Southland's retail gasoline sales are from 7-Eleven locations, the Company also operates high-volume gasoline units which offer selected convenience items. These include 39 Super-7 locations, mainly on the West Coast, which pump more than 50 million gallons annually. In addition, the 351 Quik Mart locations in Illinois, Texas, Florida, and Massachusetts, as well as parts of the eastern United States added 155 million gallons to the Company total in the four months following the Citgo acquisition. Quik Mart's annualized volume exceeds 450 million gallons, which will increase Southland's total retail volume to about two billion gallons. The Quik Mart units have about 400 square feet of sales space stocked primarily with snack foods, candy, cigarettes and cold drinks.

Operating Results

(Millions)	1979	1980	1981	1982	**1983**	**5 Year Compound Growth**
Sales	$3,453.0	$4,294.1	$5,114.5	$5,708.1	**$6,683.7**	**19.1%**
Operating Profit	143.3	174.4	219.9	224.9	**236.8**	**11.1%**

Data Taken from the Annual Report
and 10K for the Year Ended 12-31-83

Inventory Accounting: FIFO

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	12 26 70	12 25 71	12 30 72	12 29 73	12 28 74	12 27 75	12 25 76	12 31 77	12 30 78	12 29 79	12 27 80	12 26 81	12 25 82	12 31 83
LITTLE GENERAL **Tampa, Florida**														
Number of Stores	497	510	507	527	550	561	554	541	515	461	471	460	431	436
Store Growth in Year		13	-3	20	23	11	-7	-13	-26	-51	10	-11	-29	5
Store Days	181,405	183,784	188,604	188,715	196,011	202,202	201,656	200,711	187,460	168,896	170,716	167,110	156,884	160,726
Sales per Day	$340	$344	$386	$436	$471	$480	$512	$581	$683	$838	$916	$1,022	$1,107	$1,089
Sales Growth $DPD		$+4	$+43	$+50	$+38	$+6	$+32	$+69	$+102	$+155	$+78	$+106	$+85	$-18
Pretax Profit $DPD	$6.35	$10.06	$11.32	$13.54	$14.90	$13.45	$8.12	$11.70	$15.72	$25.71	$13.30	$25.42	$25.81	$18.63
After Tax Profit $DPD	$3.18	$5.03	$5.66	$6.77	$7.45	$6.72	$4.06	$5.85	$7.86	$12.85	$6.65	$12.71	$12.90	$24.32
Store Closures			23	25	18	11	20	19	30	56	29	21	31	18
Gasoline Units						82	136	170	165	167	204	208	208	212
$DPD Ranking	7 10	8 10	9 10	12 13	9 13	11 13	12 13	11 13	10 13	10 13	10 12	7 11	7 12	6 11

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 436 Little General stores on December 31, 1983. Little General is a division of General Host, a diversified company with total sales of $653,918,000 from continuing operations. Included in the Little General Stores Division are the sales and profits of 205 Hot Sam Pretzel Shoppes and Corn Dogs on a Stick Stores. These sales and profits have been included in this division for the last ten fiscal years.

1. Sales:
   Sales of the convenience stores division were reported as $205,769,000 in the annual report. We have arbitrarily assumed the average Hot Sam Pretzel Shoppe has annual sales of $150,000 and have thus subtracted $30,750,000 (205×150,000) from the total convenience store sales to arrive at Little General food store sales of $175,019,000.

2. Store Days:
   Store days of stores open all year: 431×371 = 159,901
   Store days for new stores figured for 1-2 year only: 5×165 = 825
   Total store days: 160,726
   expense and interest are estimated at 3% of sales. We have reduced estimated operating income by 3% of sales or $5,250,570 as follows:
   Little General operating income: $13,068,000
   Less 3% of sales for corporate administrative expenses and interest: 5,250,570
   Estimated Little General pretax profit: $7,817,430

3. Sales per Store per Day:
   Sales of $175,019,000 divided by 160,726 store days equals average sales of $1,089 per store per day for the year.

4. Pretax Profit:
   Operating profit of the convenience store division was $14,298,000. We have arbitrarily assumed the average Hot Sam Pretzel Shoppe had annual operating income of $6,000 and have thus subtracted $1,230,000 (205×$6,000) to arrive at Little General operating income of $13,068,000 Operating income is stated before corporate administrative expenses and interest. Corporate administrative

5. Pretax Profit per Store per Day:
   Little General's pretax profit of $7,817,130 divided by 160,726 store days equals pretax profit per store per day of $18.63.

6. After Tax Profit:
   Little General pretax profit: $7,817,130
   Less estimated 50% tax rate: 3,908,715
   *Estimated after tax profit for Little General: $3,908,715

   Little General after tax profits of $3,908,715 have been divided by 160,726 to arrive at an after tax profit of $24.32 per store per day.
   *General Host, Little General's parent company, does a lot of gymnastics with their lines of business and their financial reporting. On balance, we believe their profit to be lower than reported here. If the interest and unallocated administrative expense were distributed to the operating divisions on a percent of sales basis, Little General's share would be $7,355,110 instead of the $5,250,570 assigned here.

7. More than $1,000,000 of income from video games or $6.22 per store per day.

8. In early July 1984, Circle K agreed to purchase 436 Little General Stores for $100 Million in cash.

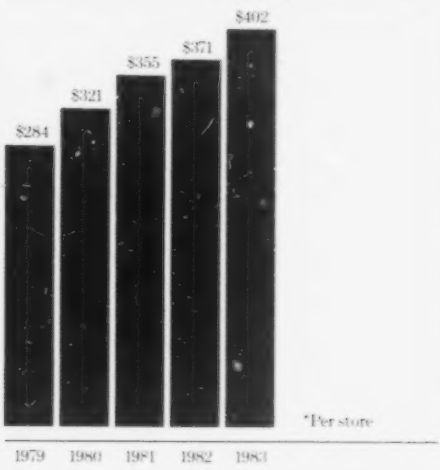
9. The Annual Report states that the average Little General store sold $402,000 in store merchandise in 1983 or $1,084 per store per day.

Little General Stores

A growth of 8% in Little General's sales in 1983 was complemented by an increase of 11% in operating earnings. While the improved economy contributed to this solid performance, aggressive merchandising programs and tight control of operating expenses were in large part responsible for these accomplishments.

Little General's stores are all located in the sunbelt, an area where the convenience store has achieved great popularity and the economy is stable and growing. The stores are concentrated in six states: Alabama, Florida, Georgia, Louisiana, Mississippi and North Carolina. With 277 stores at year-end, Florida has the largest number of units and in 1984 many new stores will be opened in this market.

Little General Average Annual In-Store Sales* Thousands of dollars



In 1983 about 14% of Little General's operating income came from gasoline sold in the 212 stores equipped with self-service gasoline pumps. Gasoline is important to Little General for two reasons: first, it provides substantial income, and second, statistics indicate that about 30% of all gasoline purchasers also buy additional items in the store.

At the close of 1983, Little General owned 46 self-service gasoline facilities as compared with only five at the beginning of the year. This resulted from the purchase of gasoline equipment located in 24 stores in North Carolina and Florida, as well as from the installation of gasoline pumps in new stores. These moves were made to further Little General's strategy of direct ownership of gasoline service facilities. The advantage of owning gasoline equipment is that it allows greater flexibility in customer pricing and permits the wholesale purchase of gasoline. Stores with pumps owned by Little General have already demonstrated strong increases in both gasoline margins and in-store sales.

In 1983 the number of stores increased by five to the 436 in operation at the end of the year. As part of its capital program, Little General opened 23 new stores, closed 18 unprofitable units and remodeled 60. In total, 148 stores have been remodeled over the last four years, with an additional 60 targeted for 1984. These units, which display appealing new signage as well as refurbished interiors and decor, show improved sales performance.

Consumer surveys continue to reinforce the importance of store cleanliness, convenient location, ease of entry and exit, and the offering of a good variety of top brand name products. During the year, Little General continued to place strong emphasis on these factors with favorable results.

Over 40% of Little General's sales are derived from the beverage category, including soft drinks, beer and wine which carry favorable margins. Consequently, beverages continue to gain greater shelf space and merchandising attention. During the year, Little General ran promotions for carton cigarettes and case beer, both of which are high-volume, high-priced items, thereby increasing both customer traffic and sales in the stores. Another important marketing improvement was the installation of larger and better equipped fountain beverage service in 42 stores.

In 1983, Little General benefited from the presence of electronic video games for the full year in almost all of its stores. Despite the fact that interest in video games is generally decreasing, over $1 million was earned from this source in 1983 and expectations are that it will continue to be an income producer in 1984.

Another factor in the success of convenience stores is to make certain that key products are in stock at all times. Little General maintained an in-stock position throughout the year of better than 98% —an industry record.

Little General also placed greater emphasis on its snack food program and during the year introduced quality private label burritos and sandwiches. To further improve its fast food offerings in 1984, Little General plans to introduce high-quality hot dogs in more than half its stores and plans to equip 100 units with frozen beverage machines.

Advertising continues to play an important role in attracting customers and stimulating sales, and a media campaign in 1983 was helpful in supporting the overall marketing effort.

Little General has an ambitious plan for 1984 which calls for 35 new stores. This effort, combined with effective management controls and merchandising strategy, will continue to make Little General a leader in the convenience store industry.

Data Taken from the Annual Report
and 10K for the Year Ended 1-31-84

Inventory Accounting: LIFO

	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended					
	1-31-79*	1-31-80*	1-31-81*	1-31-82*	1-31-83	1-31-84
DAIRY MART CONVENIENCE STORES, INC. **Enfield, Connecticut**						
Number of Stores	73	79	91	110	113	176
Store Growth in Year	6	6	15	16	3	33
Store Days	25,547	29,927	31,659	42,682	51,616	58,201
Sales per Day	$1,011*	$1,057*	$1,045	$931	$1,009	$1,191
Sales Growth SDPD	—	—	—	$-111	$+75	$+185
Pretax Profit SDPD	$1.41	$2.35	$10.93	$.38	$11.27	$31.61
After Tax Profit SDPD	$1.17	$1.86	$2.30	$.41	$8.50	$17.55
Store Closures	0	2	2	23	11	10
Gasoline Units					28	28
SDPD Ranking					11-12	7-11

*Data taken from the Prospectus dated July 22, 1983 and 10K for the Year Ended July 22, 1982.

BASIS FOR PROFIT PER DAY DETERMINATION

Dairy Mart operated 176 stores in three states on January 31, 1984. 109 of these stores were company operated, and 67 units were franchised.

1. The Annual Report states that sales for the year were $82,681,276. It also states that $13,208,730 of these sales were from gasoline. Store sales were thus $69,472,546.

2. Store Days:
   Store days of stores open all year: 113 × 365 = 52,195
   Store days of new stores figured for 1-2 year only: 33 × 182 = 6,006
   Total store days: 58,201

3. Sales per Store per Day:
   Store sales of $69,472,546 divided by 58,201 store days equals average sales of $1,194 per store per day for the year.

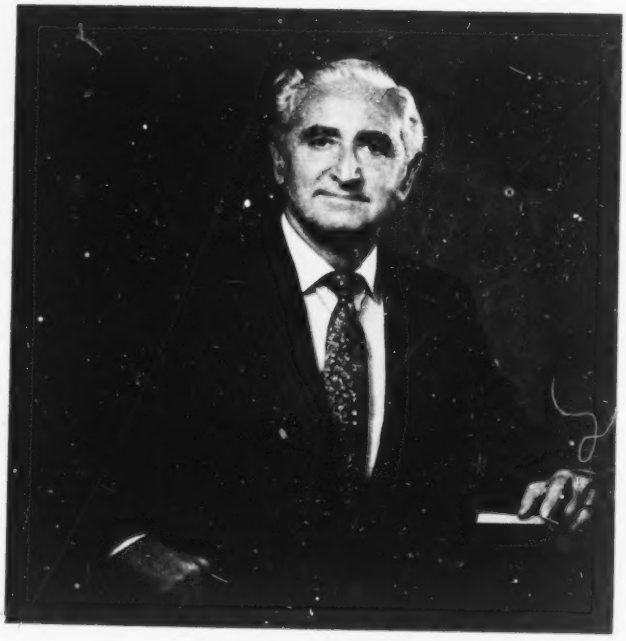
4. Pretax Profit:
   Pretax profit of $1,839,709 divided by 58,201 store days results in a pretax profit of $31.61 per store per day.

5. After Tax Profit:
   After tax profit of $1,021,709 divided by 58,201 store days results in an after tax of $17.55 per store per day.

6. *Gasoline not included in above sales figures from February 1, 1980 forward.

7. Became a public company at the end of July 1983.

Message to Stockholders



To Our Stockholders:

I'm pleased to report to you that our first year as a publicly-held company was the best in our history. For the fiscal year ended January 31, 1984, our sales jumped 37% to $82,681,276 from $60,269,639 for fiscal year 1983. Our earnings also showed a sharp increase, 133% rising to $1,021,709, or $1.13 per share from $438,832, or $ .61 per share in fiscal year 1983.

These financial gains were generated across the board as each of our three profit centers -- convenience stores, the dairy, and gasoline -- all showed increases in operating performance over the previous year.

At the end of fiscal year 1984, Dairy Mart has 176 stores in Connecticut, Massachusetts, and Rhode Island. This compares with the 143 stores we operated or franchised at the end of fiscal year 1983. In July of 1983, the company reached a high point of operating 181 stores. However, since we continually review our stores for profitability and operating performance, we did not hestitate to close those stores not meeting these standards.

We also made a very significant acquisition, that of the Dutchland Farm chain of convenience stores in Rhode Island. This acquisition was made for cash on April 30, 1983, and the former Dutchland stores were promptly converted to Dairy Marts. They achieved profitability for us from day one. With this acquisition, our overhead costs were spread across a larger base of operations, and these additional stores were supplied by our dairy operation giving us increased volume at minimal added cost.

Our gasoline operation has also expanded significantly over the past two years from 14 store locations as of January 31, 1982, to 23 and 28 store locations, respectively, at January 31, 1983, and 1984. Total gallonage pumped this past year increased over 60% as compared to the previous fiscal year.

While our fiscal year 1984 financial results are a most significant achievemnet, there were other major efforts that helped strengthen our business and prepare for future growth. Most important, perhaps, was our initial public offering of common stock on July 22, 1983. After many years of building Dairy Mart Convenience Stores from a concept to the second largest chain of convenience stores in New England, the time was right for an infusion of public funds to increase and strengthen our corporate capital structure. The investing public obviously agreed with Dairy Mart's decision based on their reception to the company's offering at 8¼ per share. It immediately sold out, and the price of the stock has exceeded this initial price throughout the remainder of the fiscal year reaching a high of 15¼.

As you can imagine, it took a great deal of time and effort to bring the initial public offering to market and to revamp the Dutchland stores into Dairy Marts. That these tremendous undertakings could have been accomplished within the same year, and still show record results, is a tribute to the management and people of our company. Dairy Mart is very fortunate to have good people as its most important resource, and a strong, young management team that is aggressive and anxious to further develop our growth. While our administrative team is lean, it has been carefully nurtured to pave the way for a continuity of leadership into the years ahead.

Our financial position has also been considerably strengthened by a firm commitment from our major lending banks to support our planned expansion. This commitment of $10 million over a long term period assures the availability of funds the Company will require to meet our corporate objectives.

This sound financial position is allowing us to make aggressive plans for the future growth of our Company. Our prime market area, the Northeast, shows great potential for the convenience store industry, and Dairy Mart plans to capitalize on this potential in the coming year. We plan to open between 20 and 25 stores in fiscal 1985. A target area where we do not now have a presence is Worcester and its surrounding area in Central Massachusetts. We have already appointed a District Manager for this territory, and by the time this report reaches you, we will have already begun to penetrate this market.

Our financial strength, and our built-in expansion ability, not only allow us to open these new stores, but also permit us to plan for substantial future growth without imposing heavy new cost burdens on the Company. For example, our dairy plant, which currently operates one shift, can supply up to 500 stores with milk, juices, and other dairy products without requiring any new equipment if operated around the clock. Because we have already covered the fixed portion of the overhead in our dairy plant with the volume from our current stores, new Dairy Mart stores will provide higher margins for this profit center. Similarly, in 1983 we installed new computer equipment with the ability to handle record-keeping and financial data for 500 Dairy Mart stores. We can proceed to add new stores without incurring huge start-up costs for new computer equipment.

With these growth capabilities, Dairy Mart expects to see a sales increase of 25% for the fiscal year ending January 31, 1985. We feel confident this will be our first year as a company generating over $100 million in revenues. We further anticipate that our earnings will grow at an even faster rate than sales.

Dairy Mart also hopes to grow by acquiring other convenience store chains. While acquisitions can never be guaranteed, we continue to monitor the industry to determine if there are opportunities that could be of interest to us.

In conclusion, I would like to thank you for your support and confidence, and assure you that we at Dairy Mart shall do our utmost to be worthy of it.

Charles Nirenberg

Charles Nirenberg
Chairman of the Board and President

Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY

The nature of the Company's business is such as to generate substantial cash flow from operations sufficient to provide for a portion of its expansion costs as well as to meet all of its current liabilities, including the current portion of long-term debt. As of January 31, 1984 and 1983, the Company paid its trade payables in an average of 18 and 23 days, respectively. All of the Company's store revenues are received in cash, or in the case of gasoline revenues, in cash or by major credit card remittances. The Company has only a small amount of accounts receivable outstanding at any time. As is typical in the convenience store industry, the Company finances its inventory purchases primarily from the cash generated by the relatively rapid turnover of inventory.

During the past three fiscal years the Company has increased the total number of store locations as follows:

Fiscal Year Ended January 31,	**1984**	1983	1982
Number of stores:			
At beginning of year	**143**	140	94
Opened or acquired during year	**43**	14	69 (A)
Closed or sold during year	**(10)**	(11)	(23) (A)
At end of year	**176**	143	140

(A) The Company purchased 63 stores from Sunnybrook Farms, Inc. 14 of which were sold within two months, and six of which were closed during the balance of the 1982 fiscal year.

On April 30, 1983, the Company acquired a chain of convenience stores in Rhode Island from Dutchland Farm, Inc. at a cost of $1,600,000, plus inventory (see Note 7 to financial statements.) This acquisition was initially financed through the Company's revolving loan facility, but this loan was subsequently repaid from the proceeds of the public offering of stock (see below.)

During the fiscal year ended January 31, 1984, approximately 69 per cent of the growth, in terms of total purchases of property and equipment, was financed through funds provided from operations. This compares with 60 percent and 32 percent for the fiscal years ended January 31, 1983 and 1982, respectively. The Company's financing of a significant portion of its expansion costs with cash generated from operations keeps the Company in a negative working capital position. The Company anticipates that it will continue to have a negative working capital position, but the Company has not experienced, nor does it expect to experience, liquidity problems.

On July 22, 1983, the Company's initial public offering of common stock became effective and resulted in an increase, after related expenses, of $2,308,634 in the capital stock accounts. The proceeds from the public issue were used primarily to reduce the Company's long-term debt. The combined effect of the public issue with the record net earnings of the Company for the current fiscal year, reduced the Company's total debt to 161% of stockholders' equity. This compares to the prior year end at January 31, 1983, when total debt amounted to 373% of stockholders' equity.

On March 9, 1984, the Company signed new long-term financing agreements with two commercial banks. These agreements provided a total of $10 million in funds that may be used by the Company for asset growth and working capital needs. These funds are available from a revolving loan that expires in 1987, but may be extended, at the Company's option, with a term loan that would be payable in quarterly installments through the beginning of calendar year 1991.

The Company believes that its available lines of credit and funds generated from operations will continue to enable the Company to maintain adequate liquidity.

RESULTS OF OPERATIONS

FISCAL 1984 COMPARED TO FISCAL 1983

Revenues for the fiscal year ended January 31, 1984 increased $20,985,644 or 49.4% over revenues for the prior fiscal year, due both to the acquisition of the Dutchland Farm, Inc. chain of stores on April 30, 1983, and due to continued growth in store volumes of the already existing Dairy Mart convenience stores. The average growth in sales of all Dairy Mart stores approximated 12% as compared to an inflation rate of about 5%. The internal growth in store volumes and the acquisition of Dutchland Farm, Inc. resulted in an increase of 27% in volume processed at the Company's dairy plant. In addition, the average number of stores operating gasoline outlets increased from an average 18 stores in fiscal 1983 to 24.5 stores in fiscal 1984. Total gallons of gasoline pumped increased by 65% in fiscal 1984 over the preceding year.

Overall gross profit increased from $3,813,303 to $5,542,610, after giving effect to an increase in the Company's LIFO inventory reserve in the amount of $97,211. Selling, general and administrative expenses increased from $2,472,344 to $3,042,747 but decreased significantly as a percentage of revenues from 5.8% to 4.8% due to the large increases in sales mentioned above. Operating income increased by 86% from $1,340,959 to $2,499,863. Interest expense declined this year to $603,979 from $716,779, primarily due to decreased levels of debt as a result of the public offering in July, 1983. Income tax expense rose significantly from $143,000 to $818,000 due to a 216% increase in income before taxes. The entire increase in income before taxes was subject to a 46% Federal tax rate, plus the effect of state income taxes. Despite the large increase in income tax expense, net income increased from $438,832 to $1,021,709, or 133%.

FISCAL 1983 COMPARED TO FISCAL 1982

Revenues for the fiscal year ended January 31, 1983 increased $10,153,010, or 31.4%, over revenues for the prior fiscal year, primarily due to the store locations purchased by the Company in Rhode Island and Eastern Massachusetts. Due to improved operating magin for all convenience stores as a group, and due to a greater degree of utilization of the processing plant as a result of the prior year's store acquisitions, the gross profit increased from $2,512,695 to $3,813,303, which increase was mitigated by an addition to the Company's LIFO inventory reserve of $65,968. Selling, general and administrative expenses remained at 5.8% of revenues even though the Company incurred start-up expenses in connection with the October, 1981, acquisition of 43 store locations (subsequently reduced to 39 locations), including the opening of a new regional office facility in Seekonk, Massachusetts, and the purchase of additional trucks and trailers; and an increase in general wage costs. Operating income increased from $635,374 to $1,340,959, or 111.9% and net income increased from $175,240 to $438,832, or 150.4%, despite higher interest expense and a higher effective tax rate as a result of increased profits.

Data Taken from the Annual Report and 10K for the Year Ended 4-30-81

Inventory Accounting: LIFO

	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended					
	4-30-79*	4-30-80*	4-30-81*	4-30-82*	4-30-83	4-30-84
CASEY'S GENERAL STORES, INC. **Des Moines, Iowa**						
Number of Stores	226	275	301	339	377	427
Store Growth in Year	—	49	29	33	38	50
Store Days		91,683	105,653	117,330	130,654	146,100
Sales per Day — Company Stores			$707	$736	$789	$808
Sales Growth SDPD — Company Stores				$+29	$+53	$+17
Pretax Profit — All Stores SDPD			$7.11	$14.29	$22.67	$30.56
After Tax Profit — All stores SDPD			$2.11	$9.98	$13.89	$16.03
Store Closures				1	1	0
Gasoline Units					377	427
SDPD Ranking					8-12	8-11

*Data taken from the Preliminary Prospectus Dated 8-31-83.

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 427 stores in 8 states on April 30, 1984. 205 stores were company operated and 222 were franchised. The stores are operated under the Casey's General Store name.

1. The Annual Report states that sales from company operated units were $51,113,383. No information is given for sales from the franchise units. Average daily sales as computed here and shown above are for the 205 company operated units only.

2. Store Days:
   Company Units:
   Store days of stores open all year: 106×366 = 60,756
   Store days of new stores figured for 1-2 year only: 35×183 = 6,405
   Total store days: 67,161
   Franchise Units:
   Store days of stores open all year: 211×366 = 77,226
   Store days of new stores figured for 1-2 year only: 11×183 = 2,013
   Total store days: 79,239
   Total store days—all stores: 146,400

3. Sales per Store per Day:
   Store sales of $51,113,383 divided by 67,161 store days equals average sales of $808 per store per day for the year.

4. Pretax Profit:
   Pretax profit of $1,471,000 divided by total store days of 146,400 results in a pretax profit of $30.56 per store per day.

5. After Tax Profit:
   After tax profit of $2,347,000 divided by total store days of 146,400 results in an after tax profit of $16.03 per store per day.

6. Casey's became a public company in October 1983.

7. All Casey's stores sell gasoline. Above listed sales do not include gasoline sales.

8. The Company shows individual store information for stores open at least one full year:

	Annual	Per Day
Average Sales of Grocery & General	$301,029	$831
Average Gross Profits on Gasoline	36,917	101
Average Operating Income Per Company Store*	36,132	100

(*Before Corporate Expense)

Fiscal 1984 was a very exciting and successful year for Casey's. This is our first annual report since the initial public offering of our stock and the first letter to you, our new shareholders. Welcome to Casey's General Stores!

During the past twelve months, we achieved record income before extraordinary item of $2,277,199 or $.87 per share. These figures compare very favorably to prior year income before extraordinary item of $1,618,128 or $.73 per share. The increase of $.14 (19%) per share over last year is even more substantial when considering that the weighted average number of shares increased.

This improvement in net income was due to several factors, including increased over-all revenues, the maturing of our Grocery Distribution Center, and higher margins on our retail gasoline sales.

Net sales and franchise revenues for the year are $220,950,846 which is an increase of $28,628,584, or 15%, over the preceding twelve months. This continued growth can be traced to higher revenues from existing stores, the addition of fifty new retail stores, and the purchase or lease of 13 stores from franchise owners.

In addition to the Distribution Center's increased efficiency and profitability, it was remodeled in March of this year to include health and beauty aids with a semi-automated picking system. This new conveyor line not only allows us to supply these items in smaller, pre-priced quantities, but also enables us to include other, slower moving items for better quality control.

On April 30, the last day of our fiscal year, we issued 110,000 shares of stock to purchase the remaining outstanding shares of one subsidiary, Tri-State Stores, Ltd.

Management plans include continued expansion of stores in the eight state marketing area. As of July 1, 1984 we have opened an additional eight outlets with another 22 stores under construction. We anticipate 50 new store openings in fiscal 1985 with an additional 21 stores being updated to current marketing standards.

1984 was, indeed, a very successful year. You, our employees, customers, and franchisees made it all possible. My thanks to you all.

Donald F Lamberti

Donald F. Lamberti
President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Casey's derives its revenue from the retail sale of products by Company Stores and from the sale of gasoline and certain non-gasoline products on a wholesale basis to its Franchised Stores. The Company also generates revenues from continuing monthly royalties based on sales from Franchised Stores, sign and facade rental fees, initial franchise license fees and the provision of certain maintenance, transportation and construction services to the Company's franchisees.

The following tables set forth for the periods indicated the Company's revenues and gross profits according to its major revenue categories, and average sales and earnings information for Company and Franchised Stores.

	Year Ended April 30		
	1984	1983	1982
Revenues			
Retail Sales:			
Grocery and General	$ 54,143,383	$ 44,356,273	$ 33,850,542
Gasoline	94,582,596	81,099,067	67,675,184
	148,725,979	125,455,340	101,525,726
Wholesale Sales:			
Grocery and General	22,429,533	16,671,264	1,542,094
Gasoline	39,963,084	42,495,689	44,855,462
	62,392,617	59,166,953	46,397,556
Franchise Revenue	4,176,898	3,871,611	3,541,977
Other (1)	5,655,352	3,828,358	5,354,041
Total Revenue	$220,950,846	$192,322,262	$156,819,300
Gross Profits (2)			
Retail Sales:			
Grocery and General	$ 15,518,162	$ 11,701,536	$ 8,304,825
Gasoline	6,430,565	5,050,071	4,548,334
	$ 21,948,727	$ 16,751,607	$12,853,159
Wholesale Sales:			
Grocery and General	$ 1,090,755	$ 508,474	$ 39,478
Gasoline	309,139	312,053	372,841
	$ 1,399,894	$ 820,527	$ 412,319

Individual Store Information (3)

Company Stores			
Average Sales per Company Store	$ 831,488	$ 819,607	$ 827,336
Average Sales of Grocery and General	304,029	292,396	274,303
Average Gross Profits on Grocery and General	80,352	78,915	70,911
Average Sales of Gasoline	527,459	527,211	553,033
Average Gross Profits on Gasoline	36,917	34,081	37,889
Average Operating Income per Company Store (4)	36,432	34,682	32,336
Franchised Stores			
Average Franchise Revenue per Franchised Store (5)	$ 19,478	$ 19,159	$ 18,192

(1) Consists of charges to franchisees for certain maintenance, transportation and construction services provided by the Company.

(2) Represents sales less cost of goods sold.

(3) Includes only those stores that had been in operation for at least one full year before commencement of the periods indicated.

(4) Represents sales less costs of sales, including cost of merchandise, financing costs and operating expenses attributable to a particular store, but excluding federal and state income taxes, operating expenses of the Company not attributable to a particular store, and payments by the Company to its Employees' Profit Sharing and Stock Ownership Plan and Trust.

(5) For each of the periods indicated, includes a monthly royalty fee equal to 3% of gross receipts derived from store sales of non-gasoline items, a maximum royalty fee of $.018 per gallon on gasoline sales, and sign and facade rental fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

FISCAL 1984 COMPARED TO FISCAL 1983

In 1984, net sales increased by $28,323,000 (15.0%). Retail sales increased by $23,271,000 (18.5%) due in part to the addition of new Company Stores and in part to increases by existing stores. Average sales per Company Store increased by 1.4%, with virtually all of this increase coming from grocery and general retail sales. Wholesale grocery and general merchandise sales to Franchised Stores were $22,430,000 in 1984 compared to $16,671,000 in 1983. The increase in this category was attributable to new products sold by the Company's Distribution Center.

Franchise revenue in 1984 increased by $305,000 (7.9%) due primarily to the opening of new Franchised Stores and a 1.6% increase in average franchise revenue per store.

Cost of goods sold as a percentage of net sales decreased from 89.7% in 1983 to 88.6% in 1984. Sales of non-gasoline items, which have substantially higher gross margins than gasoline, increased as a percentage of total net sales during the year. Moreover, the gross profit margins on these items increased by 2.3% for retail sales and 1.8% for wholesale sales. Higher profit margins resulted principally from economies attributed to the Company's Distribution Center.

Average operating income per Company Store increased by $1,750 (5.0%), reflecting an increase in the sales of non-gasoline items as a percentage of total sales per Company Store.

Net income for 1984 increased by $584,000 (33.1%) due primarily to two factors, higher retail sales with improved profit margins and reduced net interest expense. The latter was caused by the Company's use of $9 million in proceeds from its public offering of stock to reduce indebtedness and to increase earnings on short-term investment of funds. Included in net income for 1984 is a $70,000 reduction in income taxes due to net operating loss carryforwards generated in past years by one of the Company's 50%-owned subsidiaries.

Data Taken from the Annual Report and 10K for the Year Ended

Inventory Accounting: LIFO

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	12 31 70	12 31 71	12 31 72	12 31 73	12 31 74	12 31 75	12 31 76	12 31 77	12 31 78	12 31 79	12 31 80	12 31 81	12 30 82	12 29 83
SUNSHINE JR. STORES, INC. **Panama City, Florida**														
Number of Stores	98	115	144	179	215	236	261	288	316	336	353	354	358	345
Store Growth in Year	22	17	29	35	36	21	25	27	28	20	17	1	4	-13
Store Days	31,766	38,881	47,397	58,965	71,923	82,318	90,715	100,179	110,216	118,980	126,087	129,027	129,581	127,946
Sales per Day	$370	$390*	$413*	$437*	$507*	$459	$467	$467	$470	$502	$522	$562	$570	$558
Sales Growth $DPD	$+18	$+20	$+23	$+24	$+70	$—	$+8	$+0	$+3	$+32	$+20	$+40	$+8	$-12
Pretax Profit $DPD	$19.35	$20.46	$20.30	$20.52	$30.78	$25.17	$24.35	$24.27	$22.53	$21.03	$17.71	$21.89	$16.14	$20.43
After Tax Profit $DPD	$10.12	$11.05	$10.75	$10.88	$16.31	$13.23	$12.98	$13.51	$12.47	$16.86	$10.51	$12.37	$10.92	$11.36
Store Closures							3	6	9	8	11	16	17	17
Gasoline Units		1	33	80	51	72	140	191	230	260	288	307	322	321
$DPD Ranking	2-10	2-10	5-10	7-13	3-13	5-13	7-13	8-13	9-13	9-13	9-12	9-11	9-12	9-11

*Includes gasoline sales.

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 345 small food stores on December 29, 1983 in five states.

1. The annual report states that small food store sales were $71,112,131.

2. Store Days:
Store days of stores open all year: 345×364 = 125,580
Store days for net closed stores figured for 1/2 year only: 13×182 = 2,366
Total store days: 127,946

3. Sales per Store per Day:
Sales of $71,112,131 divided by 127,946 store days equals average sales of $558 per store per day for the year.

4. Pretax Profit per Store per Day:
The annual report states that the operating profit for convenience stores was $1,713,115 before corporate expenses of $2,801,111. Since convenience store sales are 87.1% of total sales, we have allocated the expense on this basis.

Convenience store pretax profits were thus $2,611,282. Store pretax profits of $2,611,282 have been divided by 127,946 store days to arrive at a pretax profit of $20.43 per store per day.

5. After Tax Profit:
After tax profit is 55.68% of pretax profit. After tax small store profit was $1,453,540.

6. After Tax Profit per Store per Day:
Sunshine Jr. convenience store after tax profits of $1,453,540 have been divided by 127,946 store days to arrive at an after tax profit of $11.36 per store per day.

7. 11 stores are open 24 hours a day.

8. The company operates seven supermarkets. Its pretax per store per day profits in the seven supermarkets were $256.80.

The year 1983 was an important one for Sunshine-Jr. Stores, Inc. and I'm pleased to bring you this report of the results. Net sales for the year were $169.3 million, down only 1.8% from $172.3 million in 1982. Net income for 1983, however, was up, rising 2.0% from $1.78 million last year to $1.82 million this year. Net income per share was $1.07, compared to $1.05 per share in 1982.

These results reflect more than an improved economy. Although there *was* an economic recovery in 1983, it was not a robust one and, in fact, the retail environment remained soft through the third quarter. The recovery, then, does not fully explain the improvement in our bottom line.

What does? We think the answer lies in the management plan we committed ourselves to in 1982, and in the success of all levels of management in carrying that plan out. If the theme of last year's annual report was a new direction for the Company, the theme of this year's is accomplishment — what our new management team has done.

Business Segments

Jr. Food Store sales were $147.9 million, down 2.1% from 1982's $151.1 million, with gasoline contributing 51.7% of total Jr. revenue. Although 1983 was a lean year for gasoline retailers, with prices dropping 1.7% at the pump, we maintained our profits by selling more gallons.

Sunshine Food Store sales were up, rising .5% from $21.3 million last year to $21.4 million this year. The entry of a major supermarket chain into Panama City during the year makes this increase particularly impressive.

Cost Control

Selling, general and administrative expenses, which had been increasing at alarming rates over the last few years, were brought under control in 1983. In the first quarter of the year, we held their increase to 1.7% over the same quarter in 1982, and in the second and third quarters we actually *decreased* selling, general and administrative expenses when compared to those quarters last year. For the entire year, selling, general and administrative expenses decreased $16,746, or .05%, compared to increases of 6.1% in 1982 and 8.0% in 1981. Controlling costs was the primary reason we were able to increase our earnings in a year of still-depressed sales.

Asset Acquisitions

In 1983, Sunshine-Jr. acquired gasoline commission marketing agreements at 89 of its Jr. Food Stores. By purchasing the agreements, Sunshine-Jr. acquired not only the gasoline pumping equipment at these stores, but also assumed closer control over gasoline supply and, therefore, pricing. The Company now retains 100% of the profits from the sale of gasoline at these stores, profits which were previously split with suppliers. Of our 321 self-service gasoline installations, 232, or 72%, are now Company-owned, leaving 89 under commission marketing agreements. We plan to continue our acquisition program in 1984, with the eventual goal of bringing all gasoline installations under Company control.

Leona J. Lewis, Chairman of the Board
Lana Jane Lewis-Brent, President, Vice Chairman of the Board

Store Openings and Closings

Sunshine-Jr. opened four Jr. Food Stores in 1983, two in Panama City and two in the fast-growing Belleview and Leesburg areas of Central Florida. Each store features our new low-maintenance, brick exterior and bright yellow facia, and its energy-efficient design provides a utility savings of 20% over old stores. One of these stores, Jr. #27 in Panama City, is a "Super Jr." with 10 gasoline pumps, including one for diesel. Its high-traffic, high-growth location makes it a natural to become one of our top-performing stores. In addition to these new stores, we also totally remodeled two Jr. Food Stores, purchasing the property at one of them, which we had not previously owned.

Closing unprofitable locations remains an integral part of our plan to upgrade the quality of our operation, and improve productivity and profitability. Consequently, we closed 17 Jr. Food Stores during the year, for a net loss of 13 stores.

Currently under development for 1984 are six sites, five in Florida and one in Mississippi.

People: Growth and Change

In 1983, management personnel were reorganized to better meet market needs and challenges. In addition, several entirely new positions were created, including a Vice President of Retail Operations. This person is responsible for the day-to-day management of both our convenience-store and supermarket divisions, and reports to our Executive Vice President. We were fortunate to fill this position with someone with the unusual background of 10 years in convenience-store operations, as well as 10 years in supermarket operations.

Our new organization, with four functional vice presidents, is a deeper and stronger one than we've ever had. It also gives special weight to merchandising, and construction and maintenance, two crucial areas in our business.

Dividends and Equity

Sunshine-Jr. declared a $.12-per-share dividend in each quarter of 1983, maintaining dividends for the entire year at the same level as last year.

Stockholders' equity, however, increased in 1983 to $17,888,410 or $10.51 per share, 5.9% over last year's $9.92. We value your investment in Sunshine-Jr. and will continue to employ our resources to your benefit.

We at Sunshine-Jr. are proud of our performance in 1983 and are looking forward to the year ahead. Far from being the grim year that George Orwell wrote of, 1984 may prove to be one of the most exciting years in the food industry to date, as technology changes the ways in which we do business. With our management team in place, I am confident in saying that Sunshine-Jr. is ready for progress and prosperity in 1984 and beyond.

Sincerely,

Lana Jane Lewis-Brent

Lana Jane Lewis-Brent
President

February 28, 1984

Results of Operations

In 1983, net sales declined 1.8%, compared to a 3.7% decline in 1982. Breaking net sales into its components, merchandise sales decreased 2.4%, versus a 2.0% increase in 1982, primarily due to fewer stores in operation (a net reduction of 13 stores for 1983) and increased competition in all the areas in which we operate. Gasoline sales, the other component of net sales, decreased 1.0% for 1983, versus a 10.0% drop in 1982, due to lower prices in both years and a volume decrease in 1982. More specifically, our average sales price for gasoline was about $.05 less per gallon in 1983 than in 1982. Our gasoline volume, however, actually increased for 1983, rising 3.6% over 1982.

Earnings for 1983 were up 2.0% over 1982, due to management's effectiveness in controlling selling, general and administrative expenses, coupled with an increase in interest income, resulting from improved cash management and inventory control. However, earnings were still 8.8% below 1981's $1.99 million. A major impact on earnings in 1983 was an increase in our effective tax rate from 39.76% in 1982 to 44.39% this year. This was the result of a $125,000 decrease in our investment tax credit, due to reduced capital expenditures in 1983 and fewer qualified property purchases, partially offset by a $24,000 increase in benefits from our targeted jobs tax credit.

Cost of goods sold as a percentage of sales was 80.5% in 1983, down from 81.1% in 1982 and 82.4% in 1981. This improvement is also reflected in our gross margin, which is continuing on an upward trend, largely due to the Company's increased ownership of gasoline installations, resulting in better pricing practices and inventory control.

Selling, general and administrative expenses were down .05% in 1983, compared to increases of 6.1% in 1982 and 8.0% in 1981. This was the direct result of management's plan to control these expenses. Looking at some of the components of SG&A, utilities were down .6% in 1983, due to a combination of fewer stores in operation, the energy efficiency of our newer stores, and an emphasis on energy awareness and conservation. Depreciation and amortization were up 8.0% for the year, primarily due to the acquisition of 89 Company-owned gasoline installations and management's emphasis on owning our new stores, rather than leasing them. Rent was down 1.9% in 1983 because most of the 17 stores we closed during the year had been rental properties. Finally, although we added considerable management talent in 1983, salaries and wages were up only 4.0% for the year, as the result of the formal performance appraisal program we inaugurated.

Interest expense was up 49.4% in 1983 because the Company incurred additional long-term debt to finance the acquisition of the 89 gasoline commission marketing agreements.

Convenience-Store Segment: In the Jr. Food Store Division, total sales were down 2.1% from 1982 to 1983, compared to a 4.6% decline from 1981 to 1982. Merchandise sales were down 3.2% in 1983, due to fewer stores in operation and increased competition. Merchandise sales increased 1.9% in 1982 over 1981, due to an increase in the number of stores. Gasoline sales were down 1.0% in 1983, due to lower prices; however, gasoline volume was up 3.6%. In 1983, we added 89 Company-owned gasoline installations, bringing total Company-owned gasoline installations to 232. This was favorably reflected in our gross margin on gasoline sales, which increased in both 1983 and 1982. Operating profit in the Jr. Food Store Division in 1983 was $4.7 million, a 16.3% increase over 1982, compared to a 9.3% decrease the previous year. However, part of this increase resulted from certain expenses, which were previously incurred directly by convenience stores and supermarkets, becoming the responsibility of corporate in 1983.

Supermarket Segment: Sunshine Food Store Division sales were up .5% in 1983, compared to 4.0% in 1982. Although most of last year's increase came from higher sales prices, management believes this year's increase is the result of improved customer perception of our stores, due to our aggressive remodeling program. Gross margin on supermarket sales held relatively constant with the prior year. Operating profit in 1983 was up 14.0%, compared to a 7.5% decrease in 1982.

Liquidity and Sources of Capital

Cash flow from operations and borrowings were sufficient to meet capital expenditures and operating needs

Data Taken from the Annual Report
for the Year Ended 12-29-83

Inventory Accounting: FIFO

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	1-2-71	1-1-72	12-28-72	1-3-74	1-2-75	1-1-76	12-30-76	12-29-77	12-28-78	1-3-80	1-1-81	12-31-81	12-30-82	12-29-83
MUNFORD, INC. **Atlanta, Georgia**														
Number of Stores	928	959	1,057	1,246	1,348	1,408	1,310	1,351	1,211	1,181	1,119	987	959	916
Store Growth in Year		31	98	189	102	60	-98	41	-140	-27	-65	-132	-28	-43
Store Days	338,720	344,393	361,896	427,301	472,108	501,592	476,840	484,302	440,804	439,264	407,316	383,292	354,172	341,250
Sales per Day	$307	$335	$357	$404	$423	$444	$442	$437	$529	$586	$669	$738	$829	$845
Sales Growth $DPD		$+28	$+22	$+47	$+19	$-9	$+28	$-5	$+92	$+57	$83	$+88*	$+91	$+16
Pretax Profit $DPD	$5.86	$8.88	$8.98	$10.04	$12.01	$11.11	$5.14	$-9.12	$-.78	$2.22	$-9.59	$6.85	$15.20	$19.50
After Tax Profit $DPD	$2.90	$4.80	$5.14	$5.69	$6.68	$6.23	$3.67	$—	$—	$1.34	—	$4.72	$10.38	$13.14
store Closures							112	Not Given	-273	-119	Not Given	-155	Not Given	43
Gasoline Units		58	149	245	266	293	350	500+	512	555	543	471	481	469
$DPD Ranking	8-10	9-10	10-10	13-13	10-13	12-13	13-13	13-13	13-13	13-13	12-12	11-11	10-12	10-11

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 916 Majik stores in fourteen states on December 29, 1983. The company also operates other divisions with total sales of $53,581,000.

1. Sales
   The annual report states that Majik Market sales were $342,211,000.
   The annual report does not state this year the amount of gasoline sold in company operated gasoline units, but does state they are included in sales. The 10K states that gasoline sales from 266 stores are included in Majik Market sales. If we assume the average of these units sold 500 gallons a day at an average price of $111.4, the amount of gasoline sales included in Majik Market sales would be $53,930,968. (Versus 1982 gasoline sales of $34,500,000 from company operated units). We have deducted $53,930,968 from total sales to arrive at assumed store sales of $288,280,040.

2. Store Days:
   Store days of stores open all year: 916×364 = 333,424
   Store days for net closed stores figured for 1/2 year only: 43×182 = 7,826
   Total store days: 341,250

3. Sales per Store per Day:
   Sales of $288,280,040 divided by 341,250 store days equals sales of $845 per store per day for the year.

4. Pretax Profit:
   The annual report states that the operating income from food store sales was $8,369,000. This was before interest expense for the company of $3,131,000. Even though the 10K states 86% of company sales are from the convenience store business, we have again taken the charitable approach and have only deducted 50% of the interest expense. When you deduct this $1,715,500 from the convenience store operating profit, you obtain a convenience food store profit of $6,653,500. This profit of $6,653,500 divided by 341,250 store days equals a pretax food store profit of $19.50 per store per day.

5. After Tax Profit:
   Corporate after tax profits are 67.4% of the pretax profits. After tax small store profits of $4,484,459 have been divided by 341,250 store days to arrive at an after tax profit of $13.14 per store per day.

6. 893 stores or 97% of all stores are open 24 hours per day or hours which extend beyond 7 to 11 traditional hours.

7. The company closed 504 stores between 1979 and 1983.

*Sales growth as recomputed after adjusting 1981's average sales to $650 to account for store closures.

To Our Shareholders

Record sales and earnings were again achieved by Munford, Inc. in 1983. Net earnings, excluding unusual items, increased 28% to $7,148,000 or $1.96 per share for 1983, compared to $5,587,000 or $1.63 per share, excluding unusual items, in 1982. Revenues for 1983 advanced to $395,795,000, an increase of $23,190,000 over revenues of $372,605,000 in 1982.

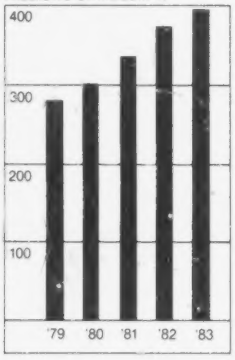
The Company is much larger than would be indicated by our reported revenue. Not included in the reported revenue is another $461,337,000 generated by our WORLD BAZAAR franchise stores, gasoline sold on a commission or contract basis by our MAJIK MARKET Division, and the face value of MAJIK MARKET money orders sold. In terms of gross receipts, the Company and its franchisees generated revenues of $857,132,000 in 1983.

Munford is in the strongest financial position in its history. Its facilities are in excellent condition, staffed with highly capable management and the Company enjoys a position of leadership in its various markets. This financial strength is a result of continuing earnings growth plus a successful program of asset management which now puts the Company in a position to expand with or without the assumption of any significant long-term debt.

The Company's favorable financial status is also reflected by the absence of any general unsecured long-term debt. The ratio of debt and capitalized lease obligations to shareholders'

Dillard Munford **Russell C. Fellows**

Net Sales and Other Revenue
MILLIONS OF DOLLARS

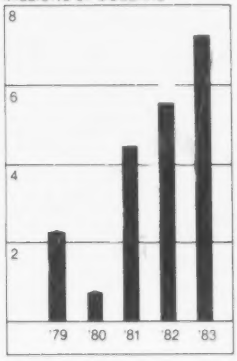


equity declined to .56 in 1983 compared with .75 in 1982 and 1.82 in 1979. Excluding unusual items, return on average shareholders' equity in 1983 increased to 15.8%. These financial gains coupled with record results from operations have been rewarded by increased activity and value in the Company's stock.

On June 3, 1983, the Company split the stock five-for-four, keeping the quarterly cash dividend at 12.5 cents per share, thereby effectively increasing the cash dividend by 25%. Additionally, effective October 14, 1983, the Company called in its preferred stock, substantially all of which was converted to common stock.

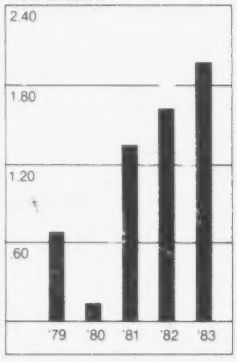
The WORLD BAZAAR Division recorded its strongest growth year in 1983, opening a total of 31 new stores. This division's revenues advanced sharply to $53,572,000 compared with $43,605,000 in 1982. At the end of 1983, a total of 223 WORLD BAZAAR stores were operating in 28 states.

Net Earnings
MILLIONS OF DOLLARS



Continuing the successful growth program in this division, the Company has announced plans to accelerate expansion in 1984 with the opening of 55 to 60 new stores. Following the proven pattern of opening stores in high-traffic Sunbelt malls and shopping centers, many of these new stores will be opened within existing market areas, allowing increased market penetration and operating efficiencies. In some existing metropolitan markets, lower cost satellite stores will be opened to further increase market penetration.

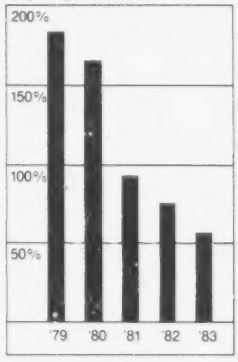
Primary Earnings Per Share



To support the fast-growing WORLD BAZAAR Division, the Company's rattan factory in Cebu City, Philippines, is being expanded to double its capacity. This expansion, together with the output of the Thailand factory, should meet the projected needs of WORLD BAZAAR through 1986.

The acceptance of the WORLD BAZAAR product lines by the consumer, both during the recession and the recovery, emphasizes the fundamental strength of this division. WORLD BAZAAR's unique worldwide buying system and the warehousing and distribution system continue to be keys to its strong competitive advantage in obtaining quality products at an attractive price for the consumer. Also contributing substantially to the WORLD BAZAAR Division are the 34 franchise owners who operate a total of 78 stores. These fine franchisees continually provide valuable market information and retailing expertise in support of sound, profitable operations.

Debt and Lease Obligations to Equity Ratio



The MAJIK MARKET Division again improved its performance in 1983, reflecting the results of aggressive asset management and a solid team of experienced business leaders. Record sales were achieved in 1983, with revenues of $342,211,000 compared to $328,202,000 in 1982, another outstanding achievement by Munford people.

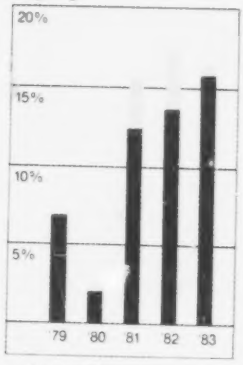
MAJIK MARKETS' continuing improvements in revenues and earnings confirm the Company's strategy of concentrating on asset management rather than number of stores, and selling or closing units which fail to meet profit expectations, while opening new stores in association with major oil companies in prime locations for high-volume gasoline and convenience food sales. MAJIK MARKETS continue to refine and expand their product lines to include

more fast food items, snack foods and fountain drinks, as well as many new non-food items.

With a strong and dedicated management team, the MAJIK MARKET Division plans to continue to build toward its goal as a "one stop" truly convenient store offering convenience to its valued customers in many different areas.

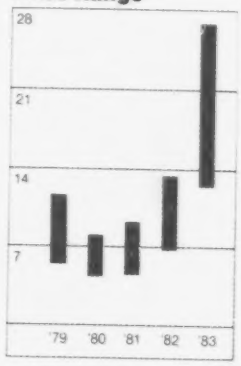
Munford, Inc. also realized significant profits from its 35% interest in United Refrigerated Services, Inc. During 1983, Mid-South Refrigerated Warehouse Company of Memphis, Tennessee, and Empire Freezers, Inc. of Syracuse, New York, were acquired by United, adding eleven million cubic feet of refrigerated space and increasing revenues by a projected $9 million annually. These acquisitions brought United to a total of 32 refrigerated and distribution facilities, expanding the company's total capacity by 20% and establishing operations in markets not previously served by United. This highly profitable operation is expected to continue its strong growth, providing an improving return on investment for Munford, Inc.

Return on Average Shareholders' Equity

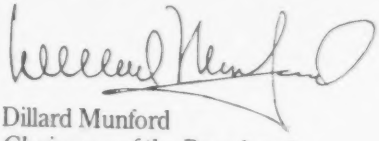


The Company is dedicated to maintaining its strong financial position, insuring that the capital base and debt capacity needed is available for expansion of the WORLD BAZAAR operations and continuing growth of the MAJIK MARKET Division in high-volume, high-profit locations, as well as further expansion of its Australian joint venture with Caltex Oil (Australia) Pty. Limited, a subsidiary of Caltex Petroleum Corporation, now operating 21 MAJIK MARKETS in Australia.

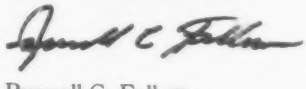
Common Stock Price Range



The Company has the strength of experienced hands-on management, the support of thousands of loyal, capable people, and the financial base to meet the growth challenges in the years ahead. With these resources, it is expected that Munford, Inc. will continue to set new record sales and earnings in 1984 and the future.



Dillard Munford
Chairman of the Board and
Chief Executive Officer



Russell C. Fellows
President and
Chief Operating Officer

Posturing itself for continued growth, the Company has repositioned its assets by discontinuing certain operations, divesting assets not meeting its return-on-investment criteria, and by the formation of the affiliated company, United Refrigerated Services, Inc. As a result of these actions, the Company has recognized gains in its accounting statement which it considers non-operational and non-recurring. In the graphs shown in this report, we have highlighted the earnings and return on equity to isolate the portion of earnings considered non-operational to assist in assessing the trends of the Company both with and without these items. Items considered unusual include Munford, Inc.'s portion of a sale of a warehouse by United of $362,000 or $.10 per share in 1983; a gain from the sale of United stock and the Company's portion of an extraordinary casualty gain in United of $1,597,000 or $.46 per share in 1982; a gain from the sale of United stock and loss from asset disposals of $1,245,000 or $.37 per share in 1981; and income from discontinued operations of $140,000 or $.05 per share in 1980.

MUNFORD, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

	1983	1982	1981
Long-term debt and capitalized leases including current portions to equity	56%	75%	93%
Long-term debt and capitalized leases including current portions to total property and equipment	68%	75%	78%

The Company continues to reduce its leverage position and interest expense. Expansion opportunities will continue to be actively explored as profitability and financing opportunities can be matched.

For a discussion of the effects of changing prices on total debt, see note 14 of the Consolidated Financial Statements.

Results of Operations

Revenues. The Company's continued overall increase in net sales and other revenue for the past three years was impacted by decreasing units in its Convenience Food Stores segment and an increase in units in its Import Stores segment. Year-end units in operation by segment for the last three years were as follows:

	1983	1982	1981
Convenience Food Stores:			
With gasoline	469	481	471
Without gasoline	447	478	516
Import Stores:			
Company operated	145	129	107
Franchised	78	67	72

In the Convenience Food Stores segment, the Company operates 204 gasoline locations under arrangements with major oil companies whereby the Company sells gasoline owned by the oil company for a fee or commission. The total retail volume of these gasoline sales is not included in the Company's revenues, only the operating fee is included. For the remaining 265 gasoline locations, the Company buys gasoline and owns the inventory. For these units, gasoline sales are included in revenues and product costs are included in cost of sales.

Gross Margins and Operating Expenses. The Company's gross margins were 27.3%, 27.3% and 29.5% for 1983, 1982 and 1981 respectively. The overall gross margin decreased in 1982 due to a shift from gasoline sold on a fee basis to purchased gasoline and due to higher gasoline prices. During 1983 the gross margins of the segments remained relatively constant.

Operating expenses as defined in this paragraph include selling and delivery expenses, general and administrative expenses and depreciation and amortization. Operating expenses for the Company, as a percentage of sales, decreased from 27.7% in 1981 to 24.7% in 1982 due to the closing of marginal food store units and improved cost controls. In 1983 the operating expenses decreased .1% reflecting improved cost controls in relation to 1982.

Operating Income. Note 12 of the Consolidated Financial Statements discloses revenues and operating income (loss) for the Company's business segments for 1983, 1982 and 1981.

The Convenience Food Stores reached a new high of 2.4% return on sales as the operations of this division matured by closing or selling marginal stores and a reduction in operating expenses on a per unit basis due to larger volume stores.

The Import Stores division recorded another record year in revenues and profits. The planned program to double, in 1984, the number of stores opened in 1983, together with the opening of stores in the first half of the year, caused a sizeable increase in inventory at year-end. While this resulted in a small reduction in return on average assets for 1983, this inventory accumulation will be rewarded by an increase in sales and profits during 1984. Return on sales of 8% was achieved in 1983, the same as 1982, even though expenditures increased for systems development, equipment and training of personnel in preparation for the major expansion in 1984.

Interest Expense. Interest expense from long-term debt, capitalized lease obligations and short-term borrowing decreased $675,000 or 16.4% in 1983 and $195,000 or 4.5% in 1982 when compared to the previous year. These decreases result from a reduction of the average debt balance and capitalized lease obligations outstanding during the periods.

Interest Income. Interest income increased $249,000 or 37.4% and $235,000 or 54.5% when compared to the previous year. These increases result from increased investments of excess working capital.

Earnings of Refrigerated Warehouse Division in 1981 and Equity in Net Earnings of United Refrigerated Services, Inc. in 1982 and 1983. On December 31, 1981, the Company concluded a transaction in which it joined with two other companies and an investor group to form a new legal entity known as MRW, Inc. (subsequently renamed United Refrigerated Services, Inc.). The Company contributed to this transaction all of its Refrigerated

Historical Summary: CONNA Corporation

Data Taken from the Annual Report and 10K for the Year Ended

Inventory Accounting: FIFO

	1st Survey	2nd Survey	3rd Survey	4th Survey	5th Survey	6th Survey	7th Survey	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
	Year Ended													
	5-31-71	5-28-72	5-27-73	5-26-74	5-25-75	5-30-76	5-29-77	5-28-78	5-27-79	5-25-80	5-31-81	5-29-82	5-29-83	5-27-84
CONNA CORPORATION **Louisville, Kentucky**														
Number of Stores	137	141	167	174	218	252	269	285	316	336	416	434	435	405
Store Growth in Year	-15	4	26	7	44	34	17	16	31	20	80	18	1	-30
Store Days	50,005	50,871	56,225	62,236	71,334	87,202	98,132	100,828	109,382	118,664	139,456	154,700	158,158	152,880
Sales per Day	$877	$847	$940	$912	$947	$911	$1,052	$1,200	$1,131	$1,338	$1,389	$1,345	$1,354	$1,610
Sales Growth $DPD	$+163	$-30	$+93		$+35	$-36	$+111	$+148	$+231	$+107	$+51	$-54	$+19	$+56
Pretax Profit $DPD	$2.01	$12.67	$11.62	$18.60	$18.96	$15.77	$11.59	$19.96	$25.56	$10.01	$23.18	$16.42	$(-1.72)	$(-.60)
After Tax Profit $DPD	$1.02	$6.33	$7.31	$10.23	$9.50	$8.55	$7.96	$11.38	$13.92	$21.21	$13.96	$10.55	$.56	$.11
Store Closures	30	3				1	17	8	7	8	7	8	12	30
Gasoline Units	68	70	71	71	78	101	112	171	218	218	311	300	289	268
Number of Stores Company Operated											57	61	57	51
SDPD Ranking	9-10	7-10	6-10	9-13	8-13	10-13	10-13	9-13	7-13	6-13	8-12	10-11	12-12	11-11

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 405 food stores on May 27, 1984, of which 351 are franchised stores and 54 are company-operated stores.

1. The annual report states that sales were $414,280,000 for the year. We have deducted gasoline sales of $152,301,000, dairy sales of $12,871,000, and Corporate Revenues of $2,913,000 to arrive at store sales of $246,175,000.

2. Store Days:
Store days of stores open all year: 405×364 = 147,420
Store days for net closed stores figured for 1-2 year only: 30×182 = 5,460
Total store days: 152,880

3. Sales per Store per Day:
Sales of $246,175,000 divided by 152,880 store days equals average sales of $1,610 per store per day for the year.

4. Pretax Profits:
The company is primarily engaged in franchising and operating small food stores. It also sells gasoline, wholesales tobacco and sundry items, finances franchisees. It has sold dairy products, work clothes, and prefabricated housing. CONNA continually tries new ideas and ventures. Some sales are made to non-franchisee stores and customers. These sales are not substantial in relation to the main activities of the company. For simplicity, we have used the pretax loss figure shown in the annual report in figuring the pretax loss for this company. The annual report states that the pretax loss was $92,000. The total pretax loss has been divided by 152,880 store days to arrive at a pretax loss of $.60 per store per day.

5. After Tax Profit:
The annual report states that total after tax profits were $22,000. Total after tax profits have been divided by 152,880 store days to arrive at an after tax profit of $.10 per store per day.

6. Gasoline sales are not included in store sales shown since 1971.

7. The chairman of CONNA does not think his company can be analyzed and compared with other C-type stores in the industry.

To Our Shareholders

This past fiscal year was one in which many difficult decisions had to be made. The early results of the current fiscal year seem to confirm that these decisions were made correctly. These decisions affected all parts of our business, and particularly our food mart operations.

Going into this fiscal year, we noted that the profits of our Convenient Food Mart franchisees had declined in each of the past few years. Although royalties are generally based on sales, store profits are critical to the health of any franchise system, and particularly for our Convenient Industries subsidiary. The decline in franchisee profitability happened at the same time we were experiencing lower earnings from food mart operations. Store profitability had to be improved, even at the expense of current year earnings for Convenient Industries.

As part of the plan, growth in new stores was slowed. This action alone had a negative effect on earnings since the selling of franchises had been a primary source of income. Stores will continue to be added only in established market areas with much higher than average potential for profits. Approximately 15 to 25 such stores will be added this year.

Possible store closings were evaluated aggressively. This past year, 26 stores were either closed or sold. Most were unprofitable, but some were marginal stores on the fringes of current market areas and therefore difficult and expensive to service. Pre-tax costs related to store closings were about $700,000 in the past year.

For the first quarter ended August 19, 1984, average sales of Convenient Food Marts were up 7% and store profits were substantially higher. We are optimistic that there will be continued improvements.

Another area of significant management attention was the electronics segment of our business. Near the end of the fiscal year, it was apparent that with the decline in earnings from our traditional business, both Quadstar and Remstar could not be supported. A choice was necessary. Because of our retailing experience, we elected to concentrate on the application for the electronics funds transfer software developed by Quadstar. Effective August 21, 1984, CONNA acquired 100% of The Information Exchange Systems, Inc. (TIES) from Quadstar. TIES operates the electronic funds transfer switch used by Autocard and also owns the 47.5% of Remstar not already held by CONNA. Meanwhile, Quadstar had begun negotiations to sell its software marketing assets to a third party. An after-tax write-down of $400,000 in the value of Quadstar was necessary as a result of these transactions.

Our earnings suffered in the past year as a result of these decisions. However, the longer term prosperity of our Company was an overriding factor. For this same reason, the dividend policy had to be reexamined. Although we expect results to improve, it would not have been prudent to continue the dividend at the old rate.

A cost reduction program was instituted soon after the end of the fiscal year. A goal to reduce corporate administrative expenses by 10% has been established, and aggressive implementation has begun.

The outlook for next year appears to be very positive. We have the people and programs in place necessary to do the job. Several areas of the Company continue to have outstanding results. Remote Services just completed one of its best years and the international consulting area is strong. There are currently 45 stores in Australia, three in Singapore and one in Malaysia.

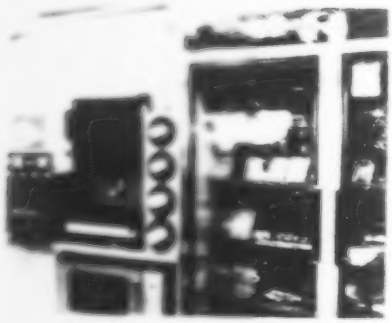
Certainly, many challenges remain. The commitment and talent of our employees and franchisees is sufficient to meet those challenges.

Sincerely,

Joe P. Peden
Chairman of the Board

Robert T. Johnson
President

August 24, 1984



Convenient Industries of America, Inc.

The fiscal year just completed was a financially difficult time for Convenient Industries, but also a year which clearly sets out the challenges that must be met for a return to success. The Company showed a loss for the year, something that has not happened since the early days of Convenient Food Marts.

The first Convenient Food Mart opened in 1960. In April of this next fiscal year that store's 25th anniversary will be observed. This passage of time highlights the changes that have occurred in the business.

The modern convenience store bears little resemblance to that first store. Competition has dictated some changes, but the customer has been an even bigger force. The customer demands a clean, attractively decorated store, that sells the products they want at any time of the day or night. Fast, friendly service is a must. The ability to meet these demands sets one apart from the competition.

One thing that has not changed in almost 25 years is the importance of store profitability. The success of any franchise system rests on the profitability of its licensees. This is especially true for Convenient Industries. Improving store profitability is the single best way for the Company to return to an acceptable level of performance.

Every aspect of the business has been and is being examined to determine ways to increase store sales and profits. The kinds and brands of products that are carried and how they are merchandised and priced has always been scrutinized closely. During the next year, substantial changes in these items will be recommended to franchisees. Existing programs for perishable goods such as fresh bakery, produce and deli meats offer significant opportunities for growth. For example, fresh-baked croissants were recently introduced successfully in one area, indicating a possible market for other fresh breads and rolls. Sandwiches, hot dogs, fountain drinks and other fast-food items are particularly attractive due to the high gross profit and increasing customer demand.

The space occupied and used by a Convenient Food Mart is an important asset that must be managed for higher sales and profits. Some older stores require extensive remodeling to meet current standards and accommodate new programs. Many others need a general "facelift" to provide a better shopping environment for the customer. The competition's new stores have a modern, clean and bright image that customers like. This competition must be met. The Company will provide financing to franchisees to help meet this objective.

Better space utilization and customer satisfaction can also be obtained through extended operating hours. Changing consumer habits and demands have led to a need for longer hours. Currently, 30% of all Convenient Food Marts are open 24 hours a day, many of which converted in the past year. This recent experience shows that as many as 80% of all stores should adopt the new hours.

The plans and objectives outlined above can only be achieved through an all-out effort from the franchisees and corporate and regional staffs. The independent store owner is the source of all sales and profits. Every day, the customer must be won over through the friendly service and product presentation the owner provides. The corporate and regional staffs of Convenient Industries must provide the operating tools, training and guidance that allow the owner to concentrate on pleasing that customer. The success of Convenient Industries is intertwined with the success of its franchisees. For this reason, the bonus potential for regional field management is based entirely on improvement in franchisee sales and profits.

The dedication of the franchisees and staff, combined with a strong market presence and almost 25 years of experience, leads to confidence that fiscal 1985 will show marked improvement.

Management's Discussion and Analysis

Results of Operations

Operating revenues for the year ended May 27, 1984, were $200.0 million compared with $229.7 million for the previous fiscal year. The decline in operating revenues during the past two years were mainly attributable to the discontinuance of operations at the Petco food marts and gasoline outlets, a lesser number of company-operated Convenient Food Mart stores and lower selling prices for gasoline.

As of the end of fiscal 1983, the Company wrote down its investment in Petco to estimated realizable value as a result of the decision to dispose of the operations. Accordingly, fiscal 1984 results do not include any operating results from the former Petco locations.

The following table summarizes the respective contributions of each segment of the Company to revenues for the last three years:

Operating Revenues
(in millions)

	1984	Percent of Total	1983	Percent of Total	1982	Percent of Total
Gasoline Retailing	$152.3	76.1	$170.1	74.1	$190.1	75.4
Food Mart Stores	31.9	16.0	42.6	18.5	46.3	18.3
Dairy Products	12.9	6.5	15.0	6.5	15.5	6.2
Corporate and Other	2.9	1.4	2.0	.9	.3	.1
TOTAL	$200.0	100.0	$229.7	100.0	$252.2	100.0

Net earnings for fiscal 1984 were $22,000 ($.02 per share) compared to $88,000 ($.08 per share) and $1,632,000 ($1.45 per share) for fiscal 1983 and 1982, respectively. Each of the past two fiscal years were affected by unusual items. In fiscal 1984, the Company recorded a $1,150,000 pre-tax write-down in the carrying value of the investment in and advances to Quadstar Corporation. In the prior year, a pre-tax provision for loss on the disposal of the Petco operation amounting to $1,742,000 was recorded. Also in fiscal 1983, a pre-tax gain of $685,000 was recorded on the sale of a subsidiary.

The following table summarizes the respective contributions of each segment of the Company to operating profits (earnings before income taxes, interest expense, and the unusual items referred to above) for the last three years:

Operating Profits (Losses)
(in thousands)

	1984	Percent of Total	1983	Percent of Total	1982	Percent of Total
Gasoline Retailing	$2,682	103.5	$1,500	72.7	$2,026	54.2
Food Mart Stores	(287)	(11.1)	334	16.2	1,630	43.5
Dairy Products	173	6.7	169	8.2	311	8.3
Corporate and Other	24	.9	60	2.9	(226)	(6.0)
TOTAL	$2,592	100.0	$2,063	100.0	$3,741	100.0

Gasoline Retailing

The following table summarizes gasoline sales in dollars and gallons, and the number of stores selling gasoline for each of the last three fiscal years:

	1984	1983	1982
	(in millions except number of stores)		
Gasoline Sales	$152.3	$170.1	$190.1
Gallons Sold	134.0	146.0	152.6
Number of stores at year-end	268	283	296

The gallons sold for fiscal 1983 and 1982 include 11.3 and 17.4 million gallons, respectively, from the Petco locations which were either sold or closed in fiscal 1984.

The gasoline sales decrease in 1984 was primarily due to lower retail prices and a lower number of stores selling gasoline. The average gallons sold per outlet increased slightly in 1984 and 1983 and declined 2% in 1982.

The operating profit in 1984 increased 79% over the prior fiscal year. The higher earnings are attributable to an increased gross profit per gallon, a reduction in other expenses, and because the prior year included operating losses from the Petco outlets. The marketing of gasoline is very competitive. Major oil companies are pricing more aggressively in a market for which the demand for gasoline has either declined or remained relatively constant. Better than average industry profits can be achieved only through buying gasoline at lowest possible prices including spot market purchases, and keeping costs to a minimum.

In fiscal 1982, the Company sold 16 gasoline locations in Ohio. The pre-tax gain on the sale of $420,000 is included in fiscal 1982 operating profits.

Food Mart Stores

The results of operations in this segment consist of sales by company-operated Convenient Food Mart (CFM) stores, franchise fees earned from CFM franchisees, and other income. Retail sales of Petco food marts are included in other income for 1983 and 1982. The following table summarizes the revenues from each of these sources for the last three fiscal years:

Revenues From Food Mart Stores

	1984	1983	1982
		(in millions)	
Sales by company-owned Convenient Food Mart stores	$19.4	$25.2	$29.4
Continuing franchise fees	9.9	9.4	8.8
Other income	2.6	8.0	8.1
Total revenues	$31.9	$42.6	$46.3

Revenues have changed in proportion to the number of stores operated by the Company and franchisees. The following table sets forth the number of Convenient Food Mart stores operating in the last three years:

Number of Convenient Food Mart Stores

	1984	1983	1982
Company-owned:			
At beginning of year	57	61	61
New stores opened	–	6	2
Acquired and converted to Convenient Food Mart stores	–	2	15
Acquired from franchisees	34	34	39
Sold to franchisees	(22)	(35)	(52)
Closed or sold	(15)	(11)	(4)
At end of year	54	57	61
Franchised:			
At beginning of year	365	357	339
New stores opened	9	8	9
Acquired from the Company	22	35	52
Sold to the Company	(34)	(34)	(39)
Closed or sold	(11)	(1)	(4)
At end of year	351	365	357
Total number of stores	405	422	418

The average sales of CFM stores were up approximately 4% in fiscal 1984, compared to the prior year. Fiscal 1983 sales were flat compared to the prior year.

The decline in operating profits for fiscal 1984 is due to several factors. Prior years earnings were favorably impacted by the initial fees and gains generated from the franchising of several company-operated stores. Due to the franchising of these stores and the reduced development of new stores, income from this source declined in the current year.

The entry of a supermarket concept in the Indianapolis, Indiana area resulted in an intense price war and severely affected the Company's food marts in that region. A plan has been implemented in an attempt to defend and increase the market share in Indianapolis.

During the year, 26 CFM stores were closed compared to 12 and eight in 1983 and 1982, respectively. The losses related to store closings exceeded the prior year's amount by $300,000 in both 1984 and 1983.

Dairy Products

Operating revenues for the year ended May 27, 1984, were $12.9 million compared with $15.0 million for the previous fiscal year. The decline in revenues is due primarily to the sale of the retail home delivery business which was sold in May, 1983. Operating profits have remained fairly constant for the last three years.

Corporate and Other

Included in this segment's operating results is the Company's equity in earnings of unconsolidated operations and certain corporate expenses (primarily depreciation and amortization) not allocable to other segments. Also included are the revenues and results of operations of the Company's investment in electronic funds transfer systems and overseas consulting ventures.

The unconsolidated operations consist of Financial Opportunities, Inc., a wholly-owned subsidiary, and CFM Distributors, Inc., a company which is owned jointly with certain Convenient Food Mart store owners. Additional financial information for each of these companies is provided in Note M of the Notes to Consolidated Financial Statements.

Quadstar Corporation and Remstar Corporation are involved in electronic funds transfer systems. Quadstar (30% owned) markets computer software and Remstar (52.5% owned) markets card-activated gasoline dispensing systems. Combined, these entities contributed $685,000 in pre-tax operating losses in fiscal 1984 and approximately $200,000 in losses in fiscal 1983. As mentioned previously, an additional $1,150,000 pre-tax write-down of the Company's investment in Quadstar was recorded in fiscal 1984.

Data Taken from the Annual Report
for the Year Ended 2-29-84

	8th Survey	9th Survey	10th Survey	11th Survey	12th Survey	13th Survey	14th Survey
			Year Ended				
			2-29-80	2-28-81	2-28-82	2-28-83	2-29-84
SEVEN-ELEVEN JAPAN CO., LTD **Tokyo, Japan Established 1973**							
Number of Stores	375	591	801	1,040	1,306	1,645	2,001
Store Growth in Year		216	210	239	266	337	358
Store Days			254,736	335,863	429,012	538,021	666,852
Sales per Day			$2,052	$1,905	$1,967	$2,028	$2,036
Sales Growth SDPD				$-147	$+65	$+61	$+8
Pretax Profits SDPD			$83.03	$85.36	$87.88	$95.73	$101.65
After Tax Profit SDPD			$36.86	$39.23	$38.40	$41.67	$45.87
Store Closures				—	—	21	18
Gasoline Units				—	—	—	—
Average Square Foot Per Store						978	985
Yearly Sales Per Square Foot						$736.87	$754.45

BASIS FOR PROFIT PER DAY DETERMINATION (in U.S. Dollars)

Operated 2,001 7-Eleven stores in Japan on February 29, 1984, of which 1,808 are franchised.

The average 7-Eleven store in the United States had total store sales of $604,440 from 2,400 square feet or sales per square foot of $251.85 for the year. The average 7-Eleven store in Japan had total store sales of $743,140 from 985 square feet or sales per square foot of $754.45 for the year.

The average dollars of pretax profit per store per store day for 7-Eleven in the United States was $55.58. The average pretax profit per store per day for 7-Eleven Japan was $101.65.

7-Eleven Japan Co. paid Southland $7,545,000 as a royalty during the fiscal year. That was 55 100th of 1% of sales. It amounted to $11.31 per store per day for 7-Eleven Japan and $2.86 per store per day for each 7-Eleven store in the United States.

TO OUR STOCKHOLDERS

Growth — in number of stores, in net sales and in net income — continued to be strong. Seven-Eleven's sustained growth momentum is based solidly on a convenience store concept that perfectly matches the needs of consumers and operating conditions in Japan. The flexibility and durability of the concept allow Seven-Eleven to redefine it as circumstances warrant to benefit customers, franchisees, suppliers, and ultimately the stockholder.

Seven-Eleven's growth momentum is building. By the end of our fiscal 1984 we had 2,001 outlets, a net increase of 358 during the year. The addition of about 350 units a year is possible only because our convenience retailing concept has gained such strong acceptance by our customers, our franchisees, and our suppliers.

Growth in sales sustained the excellent pace of previous years. Net sales grew 24.4 percent to ¥319,049 million (US$1,357.7 million). Net income improved on even last year's growth, and rose 36.5 percent to ¥7,190 million (US$30.6 million), and on a per share basis was ¥89.4 (US$0.380), also up 36.5 percent.

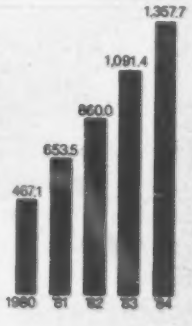
Ratios improved accordingly. Return on revenue went up 1.4 points over last year, from 10.4 percent to 11.8 percent. Return on total assets also improved, moving from 10.1 percent to 11.2 percent, and return on stockholders' equity rose by 2.2 points, from 20.7 percent to 22.9 percent. Seven-Eleven has been working very hard to achieve higher profitability, and these indicators are very gratifying to us.

Sustaining the Momentum

Growth in other industries is leveling off. The years of sustained and steep economic growth for Japan are over. Change is less quantitative, more qualitative, and consumption trends reflect this evolution. Our performance proves that we are on the right track. We have been addressing the factors behind these changes, and have developed approaches in seven key areas to ensure that

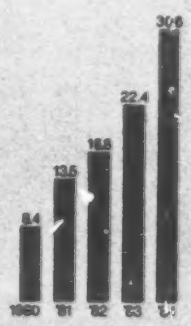
Net Sales (Million US dollars)

Net sales of both franchised and corporate stores have grown at a compounded annual rate of 30.6 percent over the last four years. Franchised stores accounted for 92.8 percent of net sales in fiscal 1984.



Net Income (Million US dollars)

Net income again showed strong growth. Compounded annual growth over the past four years was 38.2 percent, reflecting the growing contribution of franchise commissions.



Chairman Masatoshi Ito

President Toshifumi Suzuki

our growth is strongly based and continues untrammeled. These strategies, relating to the convenience concept itself and to the franchise system, products, distribution, data analysis, promotion, and the franchise support system, are detailed in the following pages of this report.

We intend to maintain a high rate of growth. Our confidence in our ability to do so is justified by the viability of our convenience concept. It is a flexible and durable concept, and one that matches well the new needs of our customers. Seven-Eleven introduced the convenience store to Japan in 1972, and is constantly redefining the concept to match new consumer needs and lifestyles. The earliest emphasis was on long business hours, but emphasis has gradually shifted to, in turn, wide item selection, price and location convenience. Competitors who have followed us must content themselves with adjusting to our initiatives.

Other factors support our confidence. Seven-Eleven so far has penetrated only 17 of Japan's 47 prefectures, and there is clearly room for expansion. There are 1.7 million small, inherently inefficient mom-and-pop retail businesses in Japan. About 0.7 million of them are food outlets. It is not hard for their owners to come to see the very real benefits that can be gained by converting into a 7-Eleven franchise.

The Systems Orientation Moves Ahead

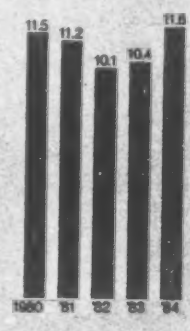
We focused in last year's annual report on our "systems orientation" toward responding to consumer needs efficiently and effectively.

Net Income per Share (US dollars)

Fiscal 1984 net income per share was three times larger than in fiscal 1980. Compound annual growth has been 32.1 percent, ranking among the highest in Japan's retail industry.

Return on Revenue (%)

Return on revenue recorded its greatest improvement in four years. Return on revenue is the ratio of net income to revenues consisting of commissions from franchised stores, net sales of corporate stores, and other including interest income (expense).



We continued during fiscal 1984 to work toward building a nationwide store information system. With point of sales and electronic order booking systems already in operation, significant improvements in product and inventory management have been achieved, and we are much better able to ensure that our stores have, on hand, what their customers want, today. We mean this very seriously; about half of the 3,500 items available in a 7-Eleven store are changed during each 12-month period. The store information system will eventually include employee and payroll management systems, and physical auditing and other systems.

Expansion

We opened 376 new outlets, and closed 18, for a net increase of 358. We established operations in Yamaguchi and Yamanashi prefectures for the first time. Significantly, we increased the number of company-owned facilities to 377 units, or 18.8 percent of all units compared with 17.9 percent a year ago. We will continue to move in this direction as circumstances allow in order to take advantage of real estate opportunities and to make the most of the better profitability of company-owned stores.

In August 1983, Seven-Eleven made a two-for-one stock split as a way to encourage broader investor participation and market liquidity. Share price after adjustment for the split continued to rise, and trading volume grew substantially.

Fiscal 1984 was an excellent year. We have every reason to believe that the next year will be so too. We thank our stockholders for continued understanding and support.

Masatoshi Ito

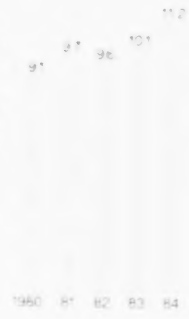
Masatoshi Ito
Chairman and Representative Director

Toshifumi Suzuki

Toshifumi Suzuki
President and Representative Director

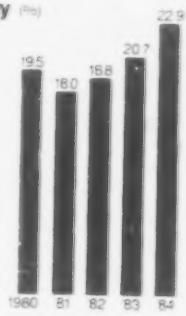
Return on Total Assets (%)

Return on total assets was again exceptionally high in comparison with the retail and other industries in Japan, the result of high profitability and productive use of resources.



Return on Stockholders' Equity (%)

At the same time that stockholders' equity increased, Seven-Eleven Japan not only maintained but improved last year's already exceptional return on equity ratio.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Sales

Net sales for fiscal 1984 ended February 29, 1984 were ¥319,049 million (US$1,357.7 million), up ¥62,579 million (US$266.3 million) over fiscal 1983, and consisting of ¥296,225 million (US$1,260.5 million) for franchised stores and ¥22,824 million (US$97.1 million) for corporate stores, which were up 25.2 percent and 14.4 percent respectively.

Major reasons for the growth in net sales included the net increase of 358 stores over the previous year and, in existing stores, more effective response to changing customer needs made possible by the point of sales and electronic order booking systems, which became fully operational during the period under review.

Revenue

Revenue, consisting of commissions from franchised stores, net sales of corporate stores, and other revenue including interest income (expense), was ¥61,191 million (US$260.4 million), up 20.3 percent or ¥10,345 million (US$44.0 million) over fiscal 1983.

Broken down by constituent, franchise commissions were ¥36,103 million (US$153.6 million), net sales of corporate stores were ¥22,824 million (US$97.1 million), and other revenue was ¥2,264 million (US$9.6 million). Franchise commissions rose 26.2 percent, or ¥7,504 million (US$31.9 million), reflecting the expansion of franchise stores, and represented 72.5 percent of the increased revenue. Interest income net of expenses decreased slightly, but continued to be comparatively high due to efficient fund management.

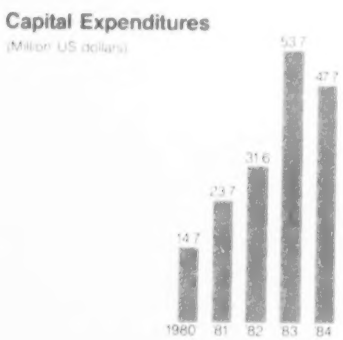
Costs and Expenses

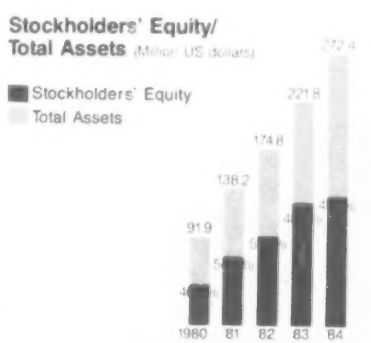
Cost of sales of corporate stores rose parallel to the increase in their net sales, and was up ¥2,147 million (US$9.1 million) or 14.4 percent to ¥17,098 million (US$72.8 million).

Selling, general and administrative expenses were ¥27,577 million (US$117.3 million), up 17.2 percent or ¥4,044 million (US$17.2 million) over the last year. This increase reflected salary and wage rises, and increased expenses for store facilities associated with the opening of new stores. However, the 17.2 percent increase is lower than the increase in revenue due to efforts to hold down expenses and generally to improve efficiency. This positively affected Seven-Eleven's net income.

Net Income

Income before income taxes was ¥16,397 million (US$69.8 million), a ¥4,293 million (US$18.3 million) or 35.5 percent increase over the previous year that was due particularly to the increase in franchise commissions. As a result of tax deferments, net income increased





36.5 percent or ¥1,922 million (US$8.2 million) to ¥7,190 million (US$30.6 million).

Net Income and Dividends per Share

The excellent results for the year were reflected in per share data. Net income per share improved 36.5 percent or ¥23.9 (US$0.101) to ¥89.4 (US$0.380). These per share figures are adjusted for the two-for-one stock split in August 1983 and the free share distribution at the rate of 1:0.1 announced in February 1984.

The dividends per share (unadjusted) were ¥19.0 (US$0.081), ¥7.0 (US$0.030) less than the figure for the previous year. After adjustment, however, the dividends per share for fiscal 1984 were ¥17.3 (US$0.074), up ¥5.5 (US$0.024)or 46.6 percent over the previous year.

Capital Resources and Liquidity

The application of working capital during fiscal 1984 was ¥13,301 million (US$56.6 million). Of this, 81.3 percent or ¥10,812 million (US$46.0 million) was used to acquire stores and store equipment. Of the remaining ¥2,489 million (US$10.6 million), ¥1,134 million (US$4.8 million) was used for the payment of cash dividends.

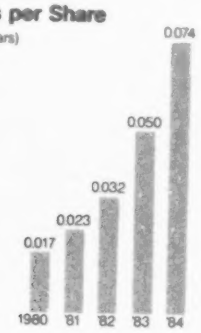
The major sources of working capital were internal funds of ¥11,171 million (US$47.5 million). These consisted mainly of net income of ¥7,190 million (US$30.6 million) and depreciation and amortization of ¥3,253 million (US$13.8 million). The other sources, ¥2,130 million (US$9.1 million), were generated externally by an increase in current liabilities. As a result, the ratio of current assets to current liabilities was 90.7 percent, compared with 96.9 percent in the previous year. The current ratio has for two years been less than 100 percent because part of property and store equipment is ordinarily financed by current liabilities, as is common in Japan's retail industry. Management believes that the Company's current ratio is appropriate for the operation of the Company's businesses considering the overall financial structure and the maintenance of ample lines of credit.

Total Assets and the Stockholders' Equity Ratio

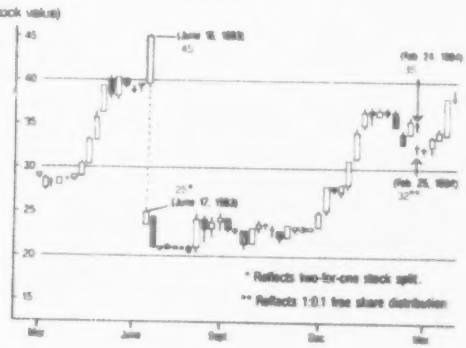
On February 29, 1984, total assets stood at ¥64,024 million (US$272.4 million), an increase of ¥11,890 million (US$50.6 million) over the previous year. The increase was mainly owing to the acquisition of property and equipment worth ¥10,812 million (US$46.0 million).

Stockholders' equity increased to ¥31,420 million (US$133.7 million) due to an increase in retained earnings of ¥6,056 million (US$25.8 million). As a result, the stockholders' equity ratio was 49.1 percent, compared with 48.8 percent in fiscal 1983.

Cash Dividends per Share
— Adjusted (US dollars)



Price Range of Seven-Eleven Stock
(US dollars)



STORES OWNED BY OTHER PUBLICLY OWNED COMPANIES

For your information, we've also included some statistics from the annual reports of other publicly-owned companies that operate small food stores. The annual reports of these corporations do not break out their store operations in sufficient detail to allow dollars per day analysis. These companies operate the following units:

COMPANY NAME	Stores Operated Under These Names	Number Of Stores 11th Survey	Number Of Stores 12th Survey	Number Of Stores 13th Survey	Number Of Stores 14th Survey
Consolidated Food	Lawson's	730	700	680	670
American Stores (Jewel)	White Hen Pantry	244	262	275	301
Diamond Shamrock	Sigmor Shopping Stations	360	357	—	550
Marsh	Village Pantries	123	131	140	142
Ashland Oil, Inc.	SuperAmerica Save Mart	N/A	265	—	300
Silcorp Limited	Mac's	656	701	683	747
	Richardson Farm Dairy Stores	36	N/A	34	30
	Hop-In	152	158	152	129
Mini Mart		114	110	113	111
Convenient Food Mart (includes operations of 50 regional franchisers)		1,004	1,038	1,078	1,086
Southland	Quik Mart	330	350	351	351
Sun Company		1,202	1,115	—	220
Crown Central	Zippy Mart Fast Fare				642
Atlantic Richfield	AM PM	500	685	—	765
Kroger: (Dillon)	Time Saver Quik Stop Kwik Stop	338	349	352	352
Total North American Stores This Year					6,396
Seven-Eleven Japan Co.	Seven-Eleven	1,040	1,306	1,643	2,001

	1974 Fifth Survey	1975 Sixth Survey	1976 Seventh Survey	1978 Eighth Survey	1979 Ninth Survey	1980 Tenth Survey	1981 Eleventh Survey	1982 Twelfth Survey	1983 Thirteenth Survey	1984 Fourteenth Survey
Average Sales Per Store Per Day	$636	$658	$723	$751	$859	$978	$1,086	$1,222	$1,310	$1,390
Sales Growth (average day this year versus average day last year)	$ +50	+22	+65	+28	+108	+119	+112	+136	+88	+80
Total Sales Per Store Per Year	$232,140	240,828	263,895	274,115	313,535	356,970	396,390	446,030	478,150	507,350
Sales Per Store Per Week	$ 4,452	4,606	5,061	5,257	6,013	6,846	7,602	8,577	9,170	9,730
Total Pretax Profit on Sales Per Store Annually	$ 7,723	8,762	9,194	10,026	12,052	13,935	14,687	18,870	18,338	19,786
Total After Tax Profit Per Store Annually	$ 3,978	4,523	4,752	5,431	6,395	8,964	8,628	10,705	10,574	12,837
Pretax Profit Per Store Per Day	$ 21.16	23.94	25.19	27.47	33.02	38.18	40.24	51.70	50.24	54.21
After Tax Profit Per Store Per Day	$ 10.90	12.36	13.02	14.88	17.52	24.56	23.63	29.33	28.97	35.17
Percentage of Profit Pretax on Store Sales	$ 3.32%	3.64%	3.56%	3.65%	3.84%	3.90%	3.70%	4.23%	3.90%	3.90%
Percentage of Profit after Tax on Store Sales	$ 1.71%	1.92%	1.84%	1.98%	2.04%	2.51%	2.17%	2.40%	2.25%	2.52%

Note the following recap of these important areas. They have been broken down on a per store per day basis.

Year	Sales	COGS*	Store Margin	Gasoline** Margin	Total Margin	Expenses	Average Pretax Profit Per Day	Sales Growth	Expense Growth	Profit Growth
1971	$495	$356.40	$138.60	$10.00	$148.60	$134.15	$14.45	Base Yr.	Base Yr.	Base Yr.
1972	530	381.60	148.40	10.00	158.40	140.67	17.73	$ 35	$6.52	$+3.28
1973	479	416.55	162.12	20.00	182.12	163.37	18.78	19	22.70	+1.05
1974	486	421.92	164.08	20.00	184.08	164.24	19.84	7	.87	+1.06
1975	636	473.76	178.05	25.00	203.05	181.89	21.16	50	17.65	+1.32
1976	658	473.76	184.24	25.00	209.24	185.30	23.94	22	3.41	+2.78
1977	723	520.56	202.44	25.00	227.44	202.25	25.19	65	16.95	+1.25
1978	751	540.72	210.28	25.00	235.28	207.81	27.47	23	5.56	+2.28
1979	859	618.48	240.52	24.18	264.70	231.68	33.02	108	23.87	+5.55
1980	978	704.29	273.88	36.69	310.57*	272.39	38.18	119	40.71	+5.16
1981	1,086	781.92	304.08	34.67	338.75	298.51	40.24	112	26.12	+2.06
1982	1,222	879.84	342.16	38.10	380.26	328.56	51.70	136	30.05	+11.46
1983	1,310	943.20	366.80	30.19	396.99	346.75	50.24	88	18.19	-1.46
1984	1,390	973.00	417.00	10.98	457.98	403.77	54.21	80	57.02	+3.97
Change Since 1971:	$+895	$+616.60	$+278.40	$+30.98	$309.38	$+269.62	$+39.76	$+895	$269.62	$39.76

*Assuming a 72% Cost of Goods Sold on store merchandise for the years 1971 through 1983. Beginning this year we are using a 70% Cost of Goods Sold.

**Gas Margin: An arbitrary gasoline Margin Dollars Per Day was used between 1971 and 1978. Beginning in 1979, the daily gas margin per day per gasoline dispensing unit of National Convenience was used. This figure was multiplied by the percentage of stores with gasoline units in the survey for the year to arrive at this daily gasoline margin figure (NCS gasoline margin of $77.18 per gasoline unit per day times 53.1% makes margin of $40.98 per store per day for the 13,883 stores in the Survey).

[redacted]

	This Year	This Year Percent of Total	Last Year	Last Year Percent of Total
Total Store Sales	$6,667,200,100	100.00%	$5,944,042,832	100.00%
Cost of Goods Sold—Store	4,667,040,000	70.00%	4,279,711,072	72.00%
Store Gross Margin	2,000,160,100	30.00%	1,664,331,760	28.00%
Gasoline Margin	196,527,780		137,002,220	
Total Margin	2,196,687,880		1,801,331,980	
Expense	1,936,701,299		1,569,562,076	
Net Profit Before Income Tax	259,986,581		231,771,904	
Net Profit After Income Tax	168,647,931		133,641,510	

[redacted]

	This Year	This Year Percent of Total	Last Year	Last Year Percent of Total
Store Sales	$1,390.00	100.00%	$1,310.00	100.00%
Cost of Goods Sold—Store	973.00	70.00%	943.20	72.00%
Store Gross Margin	417.00	30.00%	366.80	28.00%
Gasoline Margin	40.98		30.19	
Total Margin	457.98		396.99	
Expense	403.77		346.75	
Net Profit Before Income Tax	54.21		50.24	
Net Profit After Income Tax	35.17		28.97	

[redacted]

	This Year	This Year Percent of Total	Last Year	Last Year Percent of Total
Store Sales	$507,350.00	100.00%	$478,140.00	100.00%
Cost of Goods Sold—Store	355,145.00	70.00%	344,268.00	72.00%
Store Gross Margin	152,205.00	30.00%	133,882.00	28.00%
Gasoline Margin	14,957.00*		11,019.00	
Total Margin	167,162.00		144,901.00	
Expense	147,375.35		126,563.00	
Net Profit Before Income Tax	19,786.65		18,338.00	
Net Profit After Income Tax	12,837.05		10,574.00	

*Assuming gas margin of $10.98 per store per day for all stores.

Gas margin in the stores with gasoline would be higher.

[redacted]

The average profit (unadjusted for inflation) increased 7.84%, or $3.97, per store per day for the year. All of the chains in the Survey increased their dollars of profit per store per day except Southland. Last year the Survey average was $50.24 per store per day in pre-tax profit and this year the average is $54.21 per store per day.

[redacted]

Dollars Per Day Profit Ranking	Company	Number of Stores	Pretax Profit Per Store Per Day
1	Shop & Go	430	$107.68
*2	National Convenience	1,081	75.75
3	Circle K	2,185	71.18
4	Lil' Champ	183	62.15
5	Southland	7,299	55.58
*6	Little General	436	48.63
7	Dairy Mart	176	31.61
8	Casey's General Stores	427	30.56
9	Sunshine Jr.	345	29.43
*10	Munford	916	19.50
*11	CONNA	405	(.60)
Total Stores In Survey		13,883	
Average Dollars Profit Per Day			$54.21

*FIFO Inventory Valuation for Store Inventories

PRETAX PROFIT GROWTH SCHEDULE

Dollars Per Day Profit Ranking	Company	Pretax Profit Per Store Per Day Growth Over Last Year
1	Shop & Go	$+28.94
2	National Convenience Stores	+10.72
3	Circle K	+16.75
4	Lil' Champ	+10.47
5	Southland	-3.76
6	Little General	+22.82
7	Dairy Mart	+20.34
8	Casey's General Stores	+7.89
9	Sunshine Jr.	+2.29
10	Mumford	+4.30
11	CONNA	+1.22
Average profit increased per store per day over last year		$+3.97
Average profit increased per store per day over last year		+7.84%

SALES GROWTH IN CONSTANT DOLLARS

Sales growth in constant dollars is an important indicator of past and future performance of retailing companies. We have computed the effect of inflation on sales dollars using the consumer price index as the multiplier. Our figures show wide variations in sales growth by store between the chains in this Survey.

In 1971, the average store sold $495 in merchandise each day. Fourteen years later, the average store sold $1,390 in inflated dollars. When $1,390 is adjusted for inflation since 1971, average store sales in 1984 were $554 in 1971 dollars. Constant dollar sales increased 12% per store per day in the thirteen year period. Average store sales increased by $80 this year in current dollars. Based on the 13th Survey, average store sales need only have increased by $27 to keep pace with inflation.

In 1971, most stores operated sixteen hours per day. In 1984, most operated 24 hours per day. By increasing their operating hours by half again, most of the chains in the Survey have barely managed to keep up with their 1971 sales in constant dollars.

SALES COMPARISON

Current Dollar Sales Versus Constant Dollar Sales for the Eleven Chains in the Survey

Dollars Per Day Profit Ranking	Company	1971 SDPD Average Daily Sales	1984 SDPD Average Daily Sales	Sales Growth 13 Yr. Period Current Dollars	Percent Sales Increase in Current Dollars	1984 Average Daily Sales In Constant Dollars	Sales Growth for 13 Yr. Period in Constant Dollars	Percent Sales Growth in Constant Dollars
1	Shop & Go	$ 532	$1,046	$ +514	97%	$ 417	$-115	-22%
2	National Convenience	418	1,367	+949	227%	548	+130	+31%
3	Circle K	535	1,139	+604	113%	453	-82	-15%
4	Lil' Champ	525*	956	+431*	82%	408	-117	-22%
5	Southland	564	1,656	+1,092	194%	660	+96	+17%
6	Little General	340	1,089	+749	220%	434	+94	+28%
7	Dairy Mart	1,045**	1,194	+149**	14%**	1,040	-5	- .5%
8	Casey's General	707**	806	+99**	14%**	702	-5	- .7%
9	Sunshine Jr.	370	558	+188	51%	222	-148	-40%
10	Munford	307	845	+538	175%	337	+30	+10%
11	CONNA	877	1,610	+733	84%	642	-235	-27%
	Totals	$ 495***	$1,390	$ +895	181%	$ 554	$ +59	+12%

*Base Year 1973

**Base Year 1981

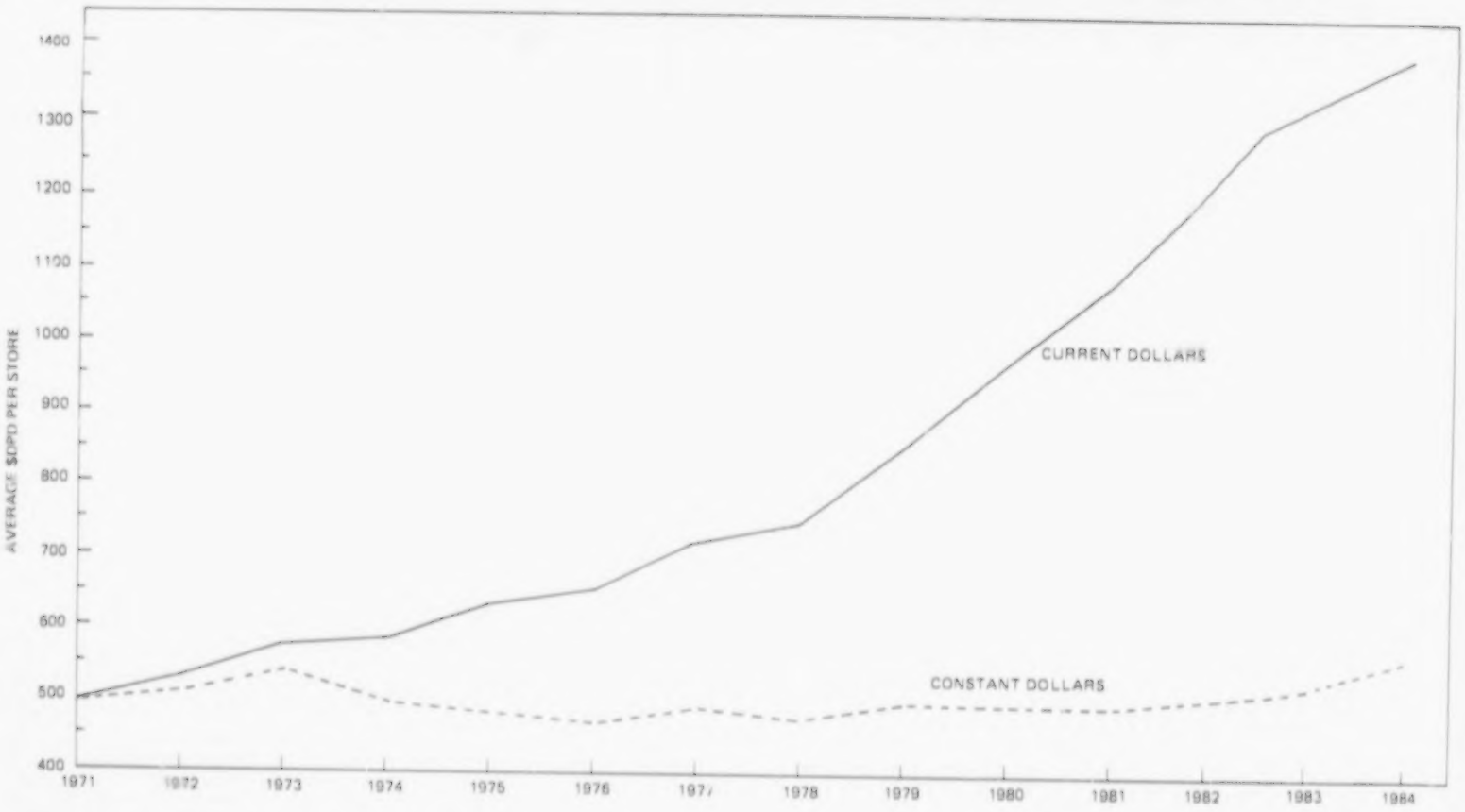
***1971 Average for chains in the Survey at that time

1984 CPI is 250.92% of 1971 CPI

1984 CPI is 234.22% of 1973 CPI

1984 CPI is 111.81% of 1981 CPI

Sales Growth
Current Versus Constant Dollar Sales for the Seven Year Period



	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Sales Reported in $DPD Survey	$495	$530	$579	$586	$638	$658	$723	$751	$859	$978	$1,086	$1,222	$1,310	$1,390
Constant Dollars Adjusted for Inflation	$495	$513	$541	$500	$485	$471	$492	$478	$500	$500	$497	$516	$532	$554
Real Sales Growth from Base Year Sales	–	+$18	+$46	+$5	–$10	–$24	–$3	–$17	+$5	+$5	+$2	+$21	+$37	+$59
CPI–Urban Consumers 1967 = 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1

[redacted]

Year	January 1 Consumer Price Index	Average Daily Sales SDPD Survey	Average Daily Sales Needed to Keep Pace with CPI*	Average Annual Sales SDPD Survey	Average Annual Sales Needed To Keep Pace	Deviation From Inflation Price
1971	119.2	$ 495		$180,675	$ 0	$ 0
1972	123.2	530	$ 512	193,450	186,817	+6,633
1973	127.7	579	530	211,335	193,502	+17,833
1974	139.7	586	580	213,890	211,751	+2,139
1975	156.1	636	658	232,140	236,684	-4,544
1976	166.7	658	692	240,828	252,583	-11,755
1977	175.3	723	728	263,895	265,772	-1,877
1978	187.2	751	777	274,115	283,659	-9,544
1979	204.7	859	850	313,535	310,218	+3,317
1980	233.2	978	968	356,970	353,400	+3,570
1981	260.5	1,086	1,082	396,390	394,930	+1,460
1982	282.5	1,222	1,173	446,030	428,199	+17,831
1983	293.1	1,310	1,217	478,150	444,205	+33,945
1984	299.1	1,390	1,242	507,350	453,330	+54,020

*Based on first Survey

[redacted]

Constant Dollar Sales Growth Ranking	Company	Sales Growth or Loss in Constant Dollars	Sales Growth or Loss over Base Year
1	National Convenience	$+130	+31%
2	Southland	+96	+17%
3	Little General	+94	+28%
4	Munford	+30	+10%
5	Dairy Mart	-5	-3%
6	Casey's General	-5	-7%
7	Circle K	-82	-15%
8	Shop & Go	-115	-22%
9	Lil' Champ	-117	-22%
10	Sunshine Jr.	-148	-40%
11	CONNA	-235	-27%
	Totals	$ +59	+12%

AVERAGE SALES PER STORE PER DAY RANKING AND THIS YEAR'S SALES GROWTH VERSUS INFLATION

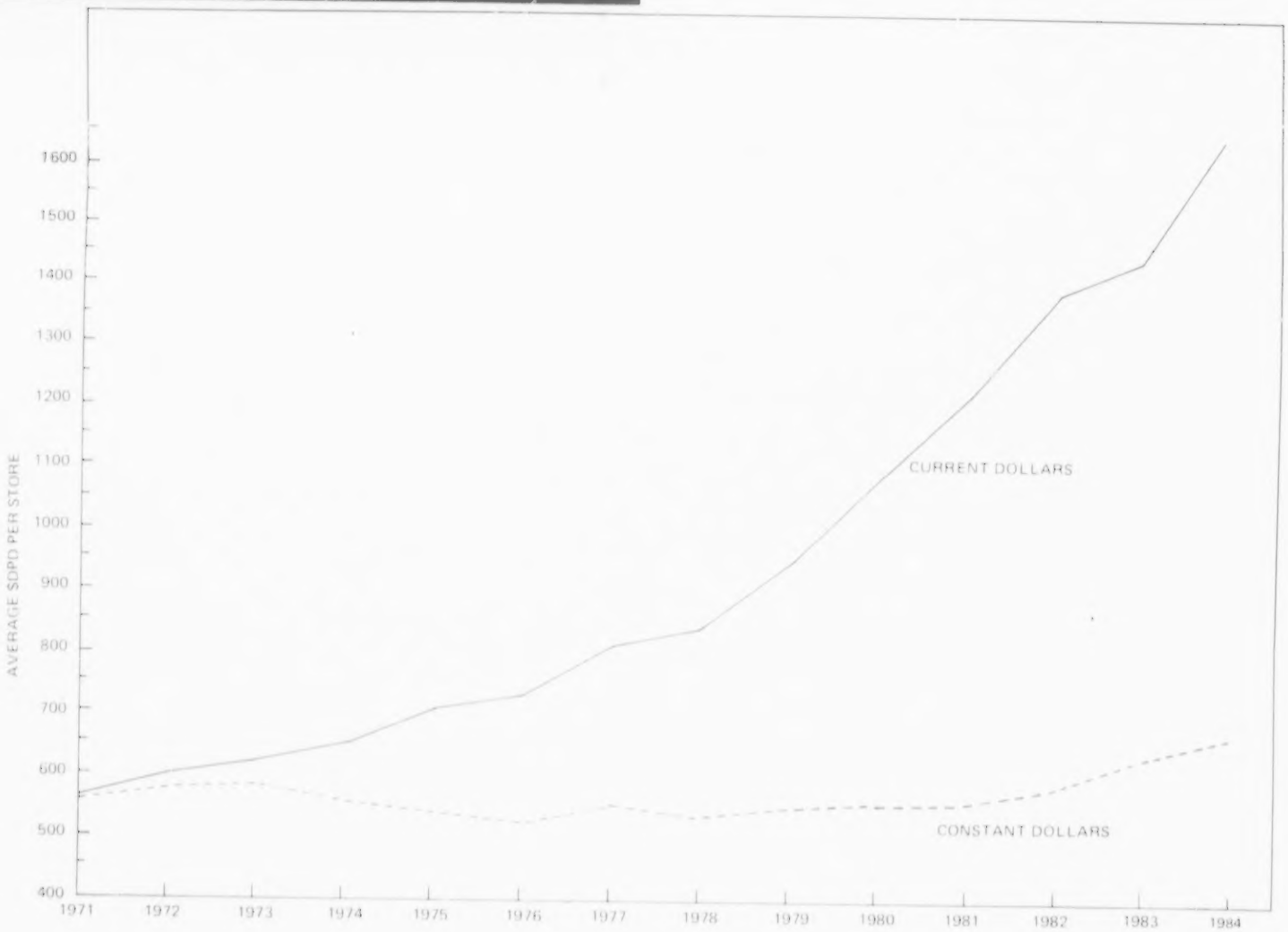
Average Sales Per Day Ranking	Company	Sales Per Store Per Day	Sales Growth Per Store Per Day This Year	Sales Increase This Year Over Last Year	Sales Needed To Keep Pace With CPI	Sales Increase or Decrease in Constant Dollars
1	Southland	$1,656	$+124	+8%	$1,563	$+93
2	CONNA	1,610	+56	+4%	1,591	+19
3	National Convenience	1,367	+153	+13%	1,239	+128
4	Dairy Mart	1,194	+185	+18%	1,030	+164
5	Circle K	1,139	+101	+10%	1,059	+80
6	Little General	1,089	-18	-2%	1,130	-41
7	Shop & Go	1,046	+154	+17%	910	+136
8	Lil' Chump	956	+128	+15%	845	+111
9	Munford	845	+16	+2%	846	-1
10	Casey s General Store	806	+17	+2%	805	+1
11	Sunshine Jr.	558	-12	-2%	582	-21
Averages		$1,390	$+80	+12%	$1,337	$+53

All sales are for food store sales only. Gasoline has been excluded, so sales are comparable among companies.

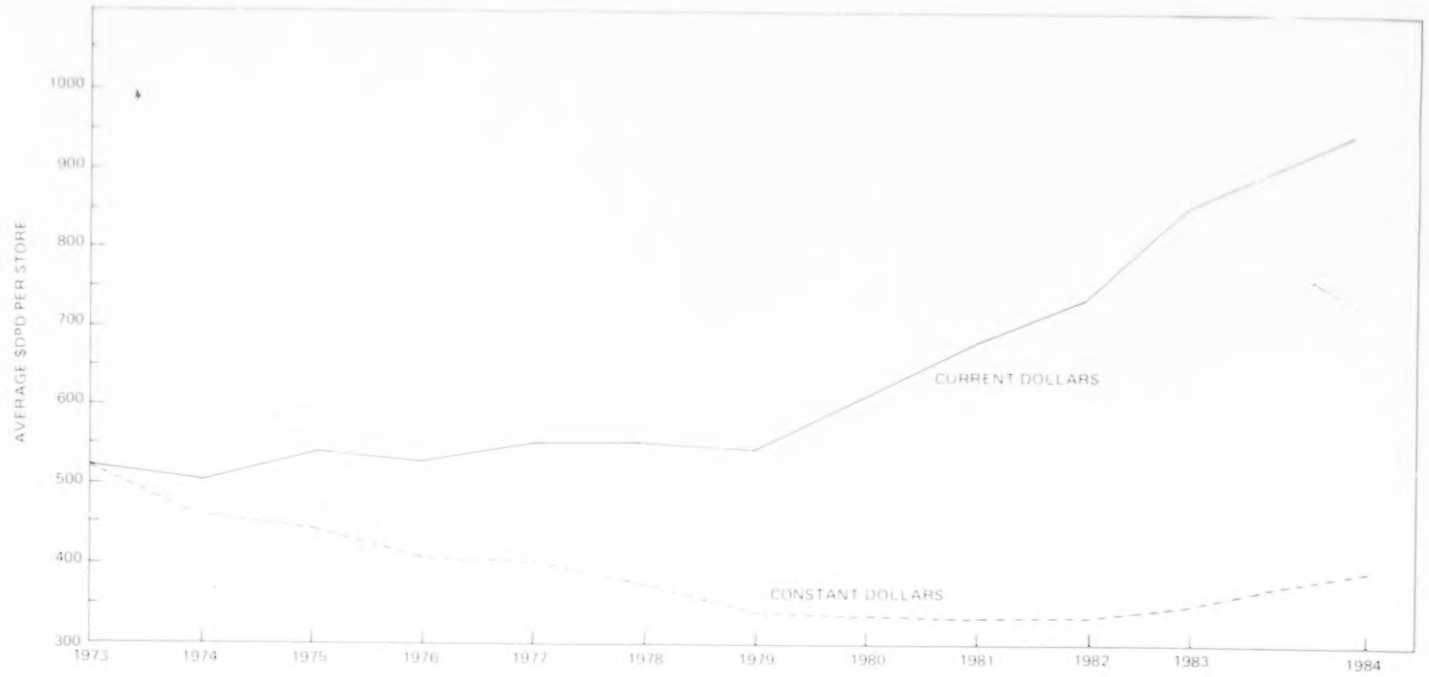
To adjust to 1984 dollars, the CPI for January, 1984 was divided by the CPI for January, 1983 (299.1 divided by 293.1 = 1.0204).

CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND

The 1971 10K for Southland states that most stores operated from 7 a.m. to 11 p.m. The 12 31 83 10K states the vast majority of 7-Eleven stores operated 24 hours a day. This schedule shows that 7-Eleven's sales increased from $564 per store per day in 1971 to $660 in 1983 (in constant 1971 dollars). This is an increase of $+96 or 17%. If night sales are less than 17% of total sales, 7-Eleven has a real increase in average store sales. If night sales are more than 17% of total sales, 7-Eleven has had a decrease in average store sales.



Average $DPD Sales in Current Dollars	$564	$598	$624	$653	$708	$731	$813	$841	$950	$1,087	$1,219	$1,394	$1,532	$1,656
Constant Dollar Sales Adjusted for Inflation	$564	$578	$583	$557	$540	$523	$553	$535	$553	$556	$558	$588	$623	$660
Real Sales Growth from Base Year Sales	—	+$14	+$19	$7	$24	$41	$11	$28	$11	$8	$6	+$24	+$59	+$96
CPI – Urban Consumers 1967 = 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1



Average Daily Sales in Current Dollars	$525	$505	$541	$532	$553	$550	$544	$612	$682	$736	$828	$956
Constant Dollar Sales Adjusted for Inflation	$525	$462	$443	$408	$403	$375	$339	$335	$334	$333	$360	$381
Real Sales Growth from Base Year Sales		-43	-98	-124	-150	-175	-205	-190	-191	-192	-$165	-$144
CPI – Urban Consumers 1967 = 100	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1

PROFIT GOAL

In our first survey in 1971, we established a profit goal for the industry of $30 per store per day. We felt $30 was a reasonable return on the amount of capital invested at that time in the average store of that time. Our $30 figure was based, however, on the value of money in 1971. Because of inflation in 1983, it takes $75.29 per store per day to equal $30.00 in 1971 dollars. This year, Shop & Go averaged $107.68 per store per day in pretax profit. This amounted to $42.91 in constant 1971 dollars, and again exceeds our original profit goal.

Inflation And Profit Goals

In this report, we have used the Consumer Price Index for all urban consumers (1967 = 100) as supplied by the U.S. Department of Labor. We have used the January dollars. Divide the CPI for January 1983 by the CPI for January 1971; 299.1 divided by 119.2 = 2.5092; then divide the current figure by 2.5092 to arrive at the constant dollar figure. In the Survey, pretax profits have increased from an average of $14.45 per store per day in 1971 to an average of $54.21 in 1983. If the $54.21 pretax profit is adjusted for inflation ($54.21 divided by 2.5092), you arrive at a constant dollar pretax figure of $21.60 (in 1971 dollars). Thus, in 1971 dollars, profits have risen $7.15 per store per day, or 50%. This is quite an improvement, but still only 72% of our original profit goal for average invested capital in 1971. To follow the increase of sales versus inflation, check the other sales schedules that appear in this report.

PROFIT VERSUS CONSUMER PRICE INDEX

Year	January 1 CPI	Average Profit Per Day	Average Profit Per Day Needed to Keep Pace With CPI (current dollars)	Profit Goal of $30.00 Per Day in current dollars
1971	119.2	$14.45		$30.30
1972	123.2	17.73	$14.91	31.02
1973	127.7	18.78	15.47	32.13
1974	139.7	19.84	16.93	35.16
1975	156.1	21.16	18.92	39.30
1976	166.7	23.94	20.20	41.94
1977	175.3	25.19	21.25	44.13
1978	187.2	27.47	22.69	47.10
1979	204.7	33.02	24.81	51.51
1980	233.2	38.18	28.26	58.68
1981	260.5	40.24	31.57	65.55
1982	282.5	51.70	34.24	71.10
1983	293.1	50.24	35.53	73.76
1984	299.1	54.24	36.28	75.29

*Based on First Survey

Dollars Per Day Profit Ranking	Company	Stores Closed Or Sold	Percent of Stores Operated at Year's End
1	Shop & Go	7	1.62%
2	National Convenience	35	3.23%
3	Circle K	31	1.41%
4	Lil' Champ	4	2.19%
5	Southland	364	4.98%
6	Little General	18	4.12%
7	Dairy Mart	10	5.68%
8	Casey's General Stores	0	—
9	Sunshine Jr.	17	4.93%
10	Munford	43	4.69%
11	CONNA	30	7.40%
Totals		559	4.03%

These eleven chains operated a total of 13,883 stores at the close of their last fiscal year.

1974 Fourth Annual Survey showed 172 store closings.
1975 Fifth Annual Survey showed 244 store closings.
1976 Sixth Annual Survey showed 315 store closings.
1977 Seventh Annual Survey showed 464 store closings.
1978 Eighth Annual Survey showed 399 store closings.
1979 Ninth Annual Survey showed 755 store closings.
1980 Tenth Annual Survey showed 789 store closings.
1981 Eleventh Annual Survey showed 426 store closings.
1982 Twelfth Annual Survey showed 595 store closings.
1983 Thirteenth Annual Survey shows 463 store closings.
1984 Fourteenth Annual Survey shows 559 store closings.

In total, the Survey has recorded 5,181 store closings in the past eleven years.

STORE GROWTH SCHEDULE FOR THE YEAR

Dollars Per Day Profit Ranking	Company	Stores Purchased	Stores Opened	Stores Closed Or Sold	Net Store Growth
1	Shop & Go	7	15	7	+15
2	National Convenience	62	42	35	+69
3	Circle K	985	10	31	+964
4	Lil' Champ	None	17	4	+13
5	Southland	None	198	364	+134
6	Little General	None	23	18	+5
7	Dairy Mart	34	9	10	+33
8	Casey's General Stores	None	50	0	+50
9	Sunshine Jr.	None	4	17	-13
10	Munford	None	N A	43	-43
11	CONNA	None	None	30	-30
	Totals	+1,088	+668	-559	+1,197

1974 Fourth Annual Survey showed net store growth of 1,042 stores.
1975 Fifth Annual Survey showed net store growth of 928 stores.
1976 Sixth Annual Survey showed net store growth of 672 stores.
1977 Seventh Annual Survey showed net store growth of 360 stores.
1978 Eighth Annual Survey showed net store growth of 644 stores.
1979 Ninth Annual Survey showed net store growth of 323 stores.
1980 Tenth Annual Survey showed net store growth of 247 stores.
1981 Eleventh Annual Survey showed net store growth of 205 stores.
1982 Twelfth Annual Survey showed a net store growth of 107 stores.
1983 Thirteenth Annual Survey shows a net store growth of 266 stores.
1984 Fourteenth Annual Survey shows a net store growth of 1,197 stores.

STORE CLOSINGS BY COMPANY FOR THE LAST TEN YEARS
Fiscal Years Ending Dec. or Jan. 31, 1975 to 1984

		Lil' Champ	Shop & Go	Sunshine Jr.	Southland	Circle K	CONNA	Little General	Munford	National Convenience	Dairy Mart	Casey's General Stores
1975	5th	—	2	—	142	12	—	18	—	71	—	—
1976	6th	1	—	—	158	24	4	11	—	79	—	—
1977	7th	4	5	3	154	24	17	20	112	38	—	—
1978	8th	None	9	6	254	12	8	19	N/A	18	—	—
1979	9th	None	19	9	308	24	7	30	273	29	None	—
1980	10th	None	9	8	460	22	8	56	119	28	2	—
1981	11th	None	12	11	281	28	7	29	N/A	42	2	—
1982	12th	None	21	16	267	N/A	8	21	155	73	23	1
1983	13th	None	8	17	271	10	12	31	N/A	92	11	1
1984	14th	4	7	17	364	31	30	18	43	35	10	0
	Totals	9	92	87	2,659	195	101	253	695*	505	48	2

* The Munford 10K states that they closed or sold approximately 504 stores between 1979-1983.

[redacted]

	Shop & Go	Circle K	National Convenience	Southland	Lil' Champ	CONNA	Sunshine Jr.	Little General	Mumford	Casey's General Stores	Dairy Mart[2]	Totals
Number of Stores in 5th Year Survey	240	947	801	4,801	94	218	215	550	1,348	226	73	9,513
Store Closed Since Then	92	195	505	2,659	9	101	87	253	695	2	48	4,046
Closure Rate	38%	21%	63%	55%	10%	46%	40%	46%	52%	9%	66%	43%
Stores Opened or Acquired Since Fifth Survey	282	1,433	785	5,157	98	288	217	159	263	203	151	9,016
Stores in Operation in Fourteenth Year Survey	430	2,185	1,081	7,299	183	405	345	436	916	427	176	13,865
Net Store Growth	+190	+1,238	+280	+2,498	+89	+187	+130	-114	-432	+201	+103	+4,370
Growth on Base Year	79%	131%	35%	52%	95%	86%	60%	-21%	-32%	89%	141%	46%

1. Casey's figures since 4/30/79
2. Dairy Mart Figures since 1/31/79

NEW STORES PLANNED

Dollars Per Day Profit Ranking	Company	Stores Planned As Stated in Last Year's Annual Report	Actual Net New Stores Opened or Acquired	Stores Planned This Year as Stated in this Year's Annual Report
1	Shop & Go	15 to 20 stores	+15	25–30 stores
2	National Convenience	85 new stores. 8–10 of them superstores	+69	112 new stores
3	Circle K	30 stores	+964	60 in developmental stages
4	Lil' Champ	Greater progress	+13	Selectivity
5	Southland	Doesn't state	+134	146 under construction 12-31-83
6	Little General	Firm commitment to open 20 new stores in 1984	+5	35 new stores
7	Dairy Mart	Continued expansion	+33	20–25 stores in fiscal 1985
8	Casey's General Stores	53 planned	+50	50 new store openings
9	Sunshine Jr.	Doesn't state	–13	6 sites under development
10	Mumford	Managing for profit	–43	40 to 50 new gas/food combinations
11	CONNA	Development not expected to exceed 1983 levels	–30	15–25 stores to be added this year
Totals		203+	+1,197	509–539

STORES OWNED VERSUS LEASED
As Noted in the Annual Reports and 10K's

Dollars Per Day Profit Ranking	Company	Stores in Operation	Stores With Real Estate Owned	Increase or Decrease From Last Year In Stores Owned	Stores Leased
1	Shop & Go	430			
2	National Convenience	1,081	217	+63	864
3	Circle K	2,185	119	–102	2,066
4	Lil' Champ	183	80	+2	103
5	Southland	7,299	1,588	–29	5,711*
6	Little General	436	115	N/A	321
7	Dairy Mart	176	23	+1	153
8	Casey's General Stores	427	108	+17	319
9	Sunshine Jr.	345	57	+10	288
10	Mumford	916	30	None	886
11	CONNA	405	None	None	405
	TOTAL	13,883			

*Southland leases 1,358 stores from the Southland Employees Trust.

STORES OWNED VERSUS LEASED
As Noted in the Annual Reports and 10K's

Dollars Per Day Profit Ranking	Company	Stores in Operation	Stores With Real Estate Owned	Increase or Decrease From Last Year In Stores Owned	Stores Leased
1	Shop & Go	430			
2	National Convenience	1,081	217	+63	864
3	Circle K	2,185	119	-102	2,066
4	Lil' Champ	183	80	+2	103
5	Southland	7,299	1,588	-29	5,711*
6	Little General	436	115	N A	321
7	Dairy Mart	176	23	+1	153
8	Casey's General Stores	427	108	+17	319
9	Sunshine Jr.	345	57	+10	288
10	Munford	916	30	None	886
11	CONNA	405	None	None	405
	TOTAL	13,883			

*Southland leases 1,358 stores from the Southland Employees Trust.

INDUSTRY LEADERS IN ELEVEN PUBLICLY OWNED COMPANIES
Based on Information from Proxy Statements
Qualification as an Industry Leader Based on Position, Salary, or Stock Ownership

Dollars Per Day Profit Ranking	Company	Name	Age	Position	Salary	Difference From Last Year	Percent of Ownership	Cash Dividends On Stock Ownership
1	Shop & Go	Robert Jaeb	73	Chairman & CEO	$180,120	$+27,468	28%	$ 436,333
		Lorena Jaeb	64	Executive VP, Treasurer	131,033	+23,623	27%	410,506
2	National Convenience	V.H. Van Horn	46	President & CEO	526,026	+89,631	1%	89,956
3	Circle K	Karl Eller	56	Chairman & CEO	166,667	N/A	5%	414,400
4	Lil' Champ	Julian Jackson	70	Chairman & CEO	100,000	+15,000	31%	102,250
5	Southland	John P. Thompson	58	Chairman & CEO	630,112	+89,152	11%	4,233,674
		Jere W. Thompson	52	President	585,104	+64,144	7%	2,842,469
6	Little General	Harris J. Ashton	51	Chairman & CEO	517,981	+132,412	3%	128,989
7	Dairy Mart	Charles Nirenberg	60	Chairman & President	149,000	None	30%	None
8	Casey's General Stores	Donald Lamberti	46	President	313,002	+11,871	33%	None
9	Sunshine Jr.	Leona Lewis	75	Chairman	—	—	54%	444,926
10	Munford	Dillard Munford	65	Chairman & CEO	451,890	+91,325	7%	114,465
11	CONNA	Joe Peden	54	Chairman	110,000	-2,526	11%	63,521

Average Age:

11th Survey 57.31 years

12th Survey 59.93 years

13th Survey 59.80 years

14th Survey 59.23 years

SALARY COMPARISONS OF TOP FIVE HIGHEST PAID EXECUTIVES AND OF THE BOARD OF DIRECTORS

Dollars Per Day Profit Ranking	Company	Highest Paid Executive	SDPD Cost Per Store	Second Highest Paid Executive	SDPD Cost Per Store	Officers & Directors as a Group	SDPD Cost Per Store	Number Included As Officers & Directors
1	Shop & Go	$180,120	$1.17	$131,033	$ .85	$645,631	$4.19	10
2	National Convenience	526,026	1.37	271,362	.71	2,019,633	5.27	13
3	Circle K	166,667	.29	138,333	.24	852,950	1.50	14
4	Lil' Champ	100,000	1.55	72,417	1.12	392,251	6.12	13
5	Southland	630,112	.24	585,104	.22	9,655,800	3.66	29
6	Little General	517,981	3.22	322,308	2.00	1,352,177	8.41	6
7	Dairy Mart	149,000	2.56	81,014	1.39	411,790	7.08	9
8	Casey's General Stores	313,002	2.13	313,002	2.13	949,006	6.48	5
9	Sunshine Jr.	107,151	.84	72,981	.57	395,056	3.09	6
10	Munford	451,890	1.32	299,440	.88	1,279,342	3.75	8
11	CONNA	110,000	.72	100,000	.65	640,863	4.19	9
Totals		$3,251,949		$2,386,994		$18,594,499		122
Average This Year		$295,632	$.67	$216,999	$.49	$1,690,409	$3.88	
Average Last Year		$252,581	$.66	$172,370	$.45	$1,134,968	$2.95	
Average Increase Over Last Year		$+43,051	$+.01	$+44,629	$+.04	$+555,441	$+.93	

ANALYSIS OF STOCK HOLDINGS BY STOCKHOLDERS AND DIRECTORS As Stated in the Company's Proxy Statement

Dollars Per Day Profit Ranking	Company	Approximate Number of Shareholders	Stock Outstanding Record Date	Number of Shares Held by Largest Stockholder In Proxy	Percent of Ownership	Number of Shares Held by Second Largest Stockholder In Proxy	Percentage of Ownership	Number of Shares Held by Directors As a Group	Percent of Ownership By Officers & Directors As a Group
1	Shop & Go	1,160	6,731,593	1,897,103	28%	1,784,812	27%	3,875,116	58%
2	National Convenience	1,648	15,615,881	838,510	5	780,876	5%	1,547,459	10%
3	Circle K	3,400	11,884,528	5,931,173	36	2,860,547	24%	4,664,023	39%
4	Lil' Champ	420	1,745,079	611,518	35	538,161	31%	690,097	40%
5	Southland	9,001	46,853,419	9,369,982	20	2,989,850	6%	6,878,783	15%
6	Little General	4,400	12,630,835	808,250	6	366,448	3%	985,947	8%
7	Dairy Mart	1,356	1,060,275	314,750	30	314,750	30%	646,014	61%
8	Casey's General Stores	669	2,956,000	966,000	33	739,500	25%	2,126,600	72%
9	Sunshine Jr.	652	1,701,650	926,931	54	287,600	17%	955,585	56%
10	Munford	4,079	3,565,788	261,450	7	241,833	7%	363,301	10%
11	CONNA	1,200	1,186,633	132,336	11	66,999	6%	353,446	30%

STOCK VALUATION SCHEDULE

Dollars Per Day Profit Ranking	Company	Book Value End of Year Covered in Report	Stock Outstanding As of Record Date	Where Listed	Stock Price Close 10-26-84	Market Value Of Stock 10-26-84	Times Earnings
1	Shop & Go	$ 39,653,155	6,731,593	NASDAQ	20	$ 134,631,860	15
2	National Convenience Stores	87,338,000	15,615,881	NY	17-1 8	267,121,962	17
3	Circle K	91,567,000	11,884,528	NY	30-3 8	360,992,538	11
4	Lil' Champ	13,156,000	1,745,079	NASDAQ	20	34,901,580	16
5	Southland	1,071,962,000	46,853,419	NY	30-3 8	1,423,172,602	8
6	Little General	147,014,000	12,630,835	NY	18-5 8	233,986,218	16
7	Dairy Mart	5,830,000	1,060,275	OTC	12	12,723,300	11
8	Casey's General	17,180,102	2,956,000	OTC	13-7 8	11,014,500	15
9	Sunshine Jr.	17,888,110	1,701,650	AMEX	13-1 4	22,546,862	11
10	Munford	19,854,000	3,565,788	NY	23-1 8	82,158,847	12
11	CONNA	11,912,000	1,186,633	OTC	7-1 2	8,899,747	—
Totals		$1,556,354,967				$2,622,750,016	

RETURN ON AVERAGE SHAREHOLDER'S EQUITY

Dollars Per Day Profit Ranking	Company	Return on Shareholder's Equity
1	Shop & Go	25.9%
2	National Convenience Stores	22.8%
3	Circle K	27.0%
4	Lil' Champ	17.9%
5	Southland	15.4%
6	Little General	12.8%
7	Dairy Mart	24.5%
8	Casey's General Stores	21.2%
9	Sunshine Jr.	10.4%
10	Munford	16.2%
11	CONNA	.2%

EARNINGS AND CASH DIVIDENDS PAID PER SHARE DURING YEAR

Dollars Per Day Profit Ranking	Company	Dividends Paid Common Stock	Earnings	Dividends to Earnings Ratio
1	Shop & Go	$.23	$1.33	17%
2	National Convenience Stores	.40	1.17	34%
3	Circle K	.74	1.80	41%
4	Lil' Champ	.19	1.26	15%
5	Southland	.84	3.26	26%
6	Little General	.352	1.40	25%
7	Dairy Mart	None	1.13	—
8	Casey's General Stores	None	.90	—
9	Sunshine Jr.	.48	1.07	45%
10	Munford	.475	2.06	23%
11	CONNA	.48	.02	2400%

COMMON STOCK PRICE RANGE AS SHOWN IN ANNUAL REPORT

Dollars Per Day Profit Ranking	Company	High	Low	Closing Stock Price 10 26 84*
1	Shop & Go	14-1 2	8-3 4	20
2	National Convenience Stores	22	14-7 8	17-1 8
3	Circle K	28-5 8	17-5 8	30-3 8
4	Lil' Champ	37	16-1 2	20
5	Southland	48-1 4	25-1 8	30-3 8
6	Little General	12-1 2	6-1 8	18-5 8
7	Dairy Mart	15-1 4	8-1 4	12
8	Casey's General Stores	15	10-1 4	13-7 8
9	Sunshine Jr.	18	7-1 2	13-1 4
10	Munford	27	12-1 4	23-1 8
11	CONNA	17-1 2	9	7-1 2

*10 26 84 is after the close of the fiscal year for all companies

Dollars Per Day Profit Ranking	Company	LIFO	FIFO
1	Shop & Go*	X	
2	National Convenience Stores		X
3	Circle K	X	
4	Lil' Champ*	X	
5	Southland	X	
6	Little General		X
7	Dairy Mart	X	
8	Casey's General Stores	X	
9	Sunshine Jr.	X	
10	Munford		X
11	CONNA		X

*Lil' Champ and Shop & Go use FIFO for gasoline inventories

ADDRESSES, TELEPHONE NUMBERS, AND DATE OF RECEIPT OF ANNUAL REPORT OF THE COMPANIES IN THE DOLLARS FOR DAY SURVEY

1. Shop & Go
   P.O. Box 428
   Mango, Florida 33550
   813-689-8161
   Year Ended 6-30-84
   Annual Report Received 8-11-84

2. National Convenience Stores
   100 Waugh Drive
   Houston, Texas 77007
   713-863-2200
   Year Ended 6-30-84
   Annual Report Received 8-11-84

3. The Circle K Corporation
   4500 South 40th Street
   Phoenix, Arizona 85036
   602-437-0600
   Year Ended 4-30-84
   Annual Report Received 8-11-84

4. Lil' Champ Food Stores, Inc.
   9 Acme Street
   Jacksonville, Florida 32239
   904-624-1661
   Year Ended 4-28-84
   Annual Report Received 8-16-84

5. The Southland Corp.
   2828 North Haskell Avenue
   Dallas, Texas 75221
   214-828-7011
   Year Ended 12-31-83
   Annual Report Received 4-19-84

6. Little General
   P.O. Box 13198
   Tampa, Florida 33511
   813-837-1091
   Year Ended 12-31-83
   Annual Report Received 3-23-84

7. Dairy Mart
   240 South Road
   Enfield, Connecticut 06082
   203-745-1661
   Year Ended 1-31-84
   Annual Report Received 5-07-84

8. Casey's General Stores, Inc.
   1229 N.E. Broadway Avenue
   Des Moines, Iowa 50313
   515-263-3700
   Year Ended 4-30-84
   Annual Report Received 8-06-84

9. Sunshine Jr. Stores, Inc.
   June Avenue & 17th Street
   Panama City, Florida 32401
   904-769-1661
   Year Ended 12-29-83
   Annual Report Received 4-02-84

10. Munford, Inc.
    1860 Peachtree Road, N.W.
    Atlanta, Georgia 30309
    404-352-6641
    Year Ended 12-29-83
    Annual Report Received 3-28-84

11. CONNA Corporation
    981 South Third Street
    Louisville, Kentucky 40203
    502-584-1281
    Year Ended 5-27-84
    Annual Report Received 9-10-84

Year Covered

This report covers the latest fiscal year reported by each of the chains. Years Included in the survey range from Munford's and Sunshine Jr.'s fiscal years ending December 29, 1983, to National Convenience Stores' fiscal year, which ended June 30, 1984. The annual reports for the years were received by the stockholders, beginning with Little General, on March 23, 1983, and ending with National Convenience's report which was received on September 25, 1984. This schedule shows the date each company's fiscal year ended, as well as the date the reports were received by the stockholders.

THE IMPACT OF SOUTHLAND ON THE SURVEY

Southland operates 53% of the stores included in the Survey. Since their results heavily affect the total results for the Survey, this chart shows the totals as they would appear if Southland were excluded.

COMPARISONS: SOUTHLAND VERSUS THE TEN OTHER COMPANIES IN THE SURVEY

	Stores	Store Days	Small Store Sales	Average Sales Per Store Per Day	Sales Growth Per Store Per Day	Pretax Profit	After Tax Profit	After Tax Profit as a Percent of Sales	Pretax Profit Profit Per Store Per Day
Ten Companies Without Southland	6,584	2,156,076	$2,297,200,100	$1.065	$+19	$113,278,521	$64,185,331	2.81%	4.93%
Southland	7,299	2,639,613	1,370,000,000	1.656	+121	146,708,060	104,162,600	2.38%	3.36%
Eleven Companies Including Southland	13,883	1,795,689	6,667,200,100	1.390	+ 80	259,986,581	168,647,931	2.52%	3.90%

[redacted]

	1971 First Survey	1972 Second Survey	1973 Third Survey	1974 Fourth Survey	1975 Fifth Survey	1976 Sixth Survey	1977 Seventh Survey	1978 Eighth Survey	1979 Ninth Survey	1980 Tenth Survey	1981 Eleventh Survey	1982 Twelfth Survey	1983 Thirteenth Survey	1984 Fourteenth Survey
Other Companies Without Southland	$11.41	$15.96	$17.10	$19.08	$17.28	$18.39	$18.37	$19.13	$24.83	$38.10	$32.41	$40.15	$38.63	$52.54
Southland	17.15	19.35	20.38	20.64	25.45	30.01	32.19	35.71	40.79	38.42	46.41	60.67	59.34	55.58
Southland's Performance Above the Average	$+5.71	$+3.39	$+3.28	$+1.56	$+8.17	$+11.65	$+13.82	$+16.58	$+15.96	$+.32	$+14.00	$+20.52	$+20.71	$+3.04
SDPD Survey Average — All Companies	$11.45	$17.73	$18.78	$19.81	$21.16	$23.91	$25.19	$27.47	$33.02	$38.18	$40.21	$51.70	$50.21	$54.21
Southland	17.15	19.35	20.38	20.64	25.45	30.01	32.19	35.71	40.79	38.42	46.41	60.67	59.34	55.58
Southland's Performance above the average	$ 2.70	$ 1.62	$ 1.60	$ .80	$ 4.29	$ 6.10	$+7.00	+$8.24	$+7.77	$+ .24	$+6.20	$+8.97	$+9.10	$+1.34

Store Sales as Reported in the Survey	$1,656	$1,656	$1,656
Percent Margin	28%	31%	34%
Store Margin	$464	$513	$563
Gas Gallons Sold Per Day	1,279	1,279	1,279
Gas Margin at 4 cents a gallon (4×1,279)	$51	$51	$51
Total Margin Per Day	$515	$564	$614
Gas Margin as a Percent of Total Margin	9.9%	9.0%	8.3%
Gas Margin Per Hour	$2.12	$2.12	$2.12
Total Margin Per Hour	$21.45	$23.50	$25.58
Gas Margin at 6 cents a gallon (6×1,279)	$77	$77	$77
Total Margin Per Day	$541	$590	$640
Gas Margin as a Percent of Total Margin	14.2%	13.0%	12.0%
Gas Margin Per Hour	$3.21	$3.21	$3.21
Total Margin Per Hour	$22.54	$24.58	26.67
Gas Margin at 8 cents a gallon (8×1,279)	$102	$102	$102
Total Margin Per Day	$566	$615	$665
Gas Margin as a Percent of Total Margin	18.0%	16.6%	15.3%
Gas Margin Per Hour	$4.25	$4.25	$4.25
Total Margin Per Hour	$23.58	$25.63	$27.70

The 10K states that "the vast majority" of 7-Eleven stores are open 24 hours.

Utility Costs

Utilities are a fixed cost for a given installation and do not vary with sales. Utility costs are very important to the profit and loss structure of small food stores. This year we've included some information about electricity costs in various parts of the country.

Since 1973, electric costs have risen faster than the rate of inflation. Utility costs are the third greatest operating expense in these stores, outranked only by salary and occupancy costs. Utility costs are much more volatile than the other two, because rates are set by public utility commissions and rate-setting is complex. There appears to be almost nothing the store operator can do to control price escalations in this area.

To begin a study of utility costs, we wrote the power company in the headquarter cities of the twelve chains in the survey. We gave each of them the same specifications and asked that they compute the costs of an average kilowatt. Utility company costs vary because of the price and source of power, approach and expenditure on nuclear development, utilization rate, capital expenditure rate and expectation of future demand, management and personnel efficiency, and amount of influence over the state public utility commissioners. The specifications were:

15,000 KWH (30 days @ 500 KWH usage per day)
50 KW billing demand

It's important to remember that each company and even each store within a company used a different number of KWH per day. The type of building, age, maintenance, cleanliness of equipment, climatic differences, hours of operation, and discipline of personnel all make a difference in actual daily electric usage.

Electric utility rates are a complex issue. They should be studied closely by the companies in this industry because the costs of electricity can spell the difference between profit and loss for a particular store, concept, or company. It should be obvious from looking at the schedule of percentage cost of sales for electric power that significant power savings (as a percentage of sales) results from higher average daily sales.

[redacted]

Rk	Power Company	Company Headquartered	1982 $/KWH Cost	1983 $/KWH Cost	1984 $/KWH Cost	Increased Cost Per $/KWH (1984 over 1983)	1982 Average Monthly Electric Bill	1983 Average Monthly Electric Bill	1984 Average Monthly Electric Bill	1982 ¢/KWH Cost of Electricity	1983 ¢/KWH Cost of Electricity	1984 ¢/KWH Cost of Electricity	¢/KWH of Electricity Increase 1984 Over 1983
1	Jacksonville, Florida	Jacksonville Electric Authority	Lil' Champ	7.9	7.9	8.8	9	$1,185	$1,185	$1,316	$59.50	59.50	65.82	6.32
2	Atlanta, Georgia	Georgia Power Company	Murdered	7.5	7.5	7.8	3	1,095	1,122	1,176	56.50	57.56	59.29	1.64
3	Tampa, Florida	Tampa Electric Company	Mugs & Gus	7.2	7.9	7.2	-7	1,080	1,086	1,081	56.00	56.00	56.05	+.32
4	Tampa, Florida	Tampa Electric Company	Little General	7.2	7.5	7.2	-3	1,080	1,086	1,081	51.00	56.00	56.05	+.32
5	Miami, Florida	Florida Power & Light	Miss Mart	6.7	7.2	—	N. A.	1,080	1,080	—	58.50	53.50	—	N. A.
6	Dallas, Texas	Dallas Power & Light	Seven Eleven	6.1	6.3	7.1	1	900	965	1,038	52.00	52.16	55.27	3.11
7	Houston, Texas	Houston Lighting & Power	National Convenience	5.9	6.8	6.9	1	995	1,010	1,029	29.50	53.82	54.30	.48
8	Panama City, Florida	Gulf Power Company	Sunshine Jr.	5.8	6.9	7.0	1	870	1,093	1,050	29.00	54.36	55.08	.72
9	Phoenix, Arizona	Salt River Project	Circle K	5.8	7.1	7.1	1	870	1,105	1,132	29.00	56.83	58.89	1.57
10	Louisville, Kentucky	Louisville Gas & Electric	CONNA	5.2	6.8	7.3	5	780	1,013	1,092	26.00	53.77	36.10	2.63
11	Des Moines, Iowa	Iowa Power	Casey's General Stores	n. a.	7.2	8.3	1.1	n. a.	1,081	1,231	n. a.	36.03	41.37	5.34
12	Enfield, Connecticut	Northeast Utilities	Dot Mart	n. a.	9.1	9.6	.5	n. a.	1,369	1,413	n. a.	45.33	48.10	2.77
	Averages			6.52	7.33	7.72	.39	981	1,097	1,156	$32.70	$36.57	38.54	1.93

Percentage increase in the cost of electricity for the chains in the Survey last year was 5.6%.

Each increase of 1 cent a KWH increases the dollars per day of the cost of store operations by $5.00. Unless sales are increased, it would thus reduce profits by $5.00 a day or $1,825 a year. If a chain paid 9.6 cents per KWH for all of its electricity, its cost of operation over a chain paying 6.9 cents for all its kilowatts would be $13.50 a day higher. It would have a $4,928 higher yearly operating cost.

KWH Used per Day	Cost per KW	Total Daily Electric Cost	$600	$700	$800	$900	$1,000	$1,100	$1,200	$1,500
500	$.12	$60	10.0%	8.6%	7.5%	6.7%	6.0%	5.5%	5.0%	4.0%
500	.11	55	9.1	7.9	6.9	6.1	5.5	4.2	4.6	3.7
500	.10	50	8.3	7.1	6.3	5.6	5.0	4.6	4.2	3.3
500	.09	45	7.5	6.4	5.6	5.0	4.5	4.1	3.8	3.0
500	.08	40	6.6	5.7	5.0	4.4	4.0	3.6	3.3	2.7
500	.07	35	5.8	5.0	4.4	3.9	3.5	3.2	2.9	2.3
500	.06	30	5.0	4.3	3.8	3.3	3.0	2.7	2.5	2.0
500	.05	25	4.2	3.6	3.1	2.8	2.5	2.3	2.1	1.7
500	.04	20	3.3	2.9	2.5	2.2	2.0	1.8	1.7	1.3

Kilowatt hour costs as a percent of sales are only 40% at $1,500 average sales of what they are at $600 in daily sales.

In June 1983 the highest cost per kilowatt hour in the United States was 15.04 cents in New York City. The lowest cost was 1.41 cents in Seattle, Washington (commercial rate, assuming 10,000 KWH, 40 KW demand). Source: *Electric Power Monthly*, U.S. Department of Energy, June 1982. Assuming these rates and 500 KWH of daily usage, the average electric bill for a small food store would be $2,256 monthly in New York City and $211 in Seattle, Washington. At $600 a day in sales and $75 a day in electric cost, electricity would be 12½% of sales in New York City.

DOLLARS PER DAY SURVEY—FIFTH ANNUAL REPORT 1975

Convenience Stores Ranked By Pretax Profit Per Day

Company	Year Ended	Stores	Store Days	Convenience Store Sales	Avg. Sales Per Day Per Store	Pretax Profit	After Tax Profit	After Tax Profit as % of Sales	Profit Per Day Pretax	Profit Per Store After Tax
Circle K	4/30/71	536	175,074	$ 93,607,624	$535	$ 5,846,536	$ 2,895,815	3.09%	$33.39	$16.54
Sunshine Jr.	12/31/70	98	31,766	11,753,761	370	614,711	321,494	2.73	19.35	10.12
Southland	12/31/70	3,734	1,327,056	748,949,792	564	22,757,874	11,283,353	1.50	17.15	8.50
UtoteM	2/28/71	496	167,936	65,579,870	391	2,636,864	1,276,689	1.95	15.70	7.60
Dillon	7/ 3/71	98	30,856	17,140,222	555	244,336	122,168	.71	7.27	3.95
Natl. Con.	6/30/71	487	172,113	72,000,000	418	1,220,101	760,101	1.05	7.09	4.41
Little General	12/26/70	497	181,405	61,721,000	340	1,152,370	576,185	.93	6.35	3.18
Jackson-Atl	1/ 2/71	928	338,720	103,900,023	307	1,985,471	981,148	.94	5.86	2.90
Con. Ind.	5/31/71	160	50,005	51,220,004	877	33,300	24,600	.05	2.04	1.02
Stop-N-Go	7/ 1/71	140	48,188	23,757,906	493	(45,058)	(23,058)	(.97)	(.94)	(.48)
Totals		7,151	2,523,119	$1,249,660,202	$495	$36,446,505	$18,218,495	1.45%	$14.45	$ 7.22

DOLLARS PER DAY SURVEY—FIFTH ANNUAL REPORT 1975

Convenience Stores Ranked By Profit Per Day

Company	Year Ended	Stores	Store Days	Convenience Store Sales	Avg. Sales Per Day Per Store	Pretax Profit	After Tax Profit	After Tax Profit as % of Sales	Profit Per Day Pretax	Profit Per Store After Tax
Li'l Champ	5/3/75	94	32,270	$ 17,447,409	$541	$ 1,178,177	$ 621,543	3.56%	$36.50	$19.26
Shop & Go	3/31/75	240	74,860	49,967,000	667	2,718,806	1,437,009	2.88	36.31	19.19
Sunshine Jr.	12/31/74	215	71,923	36,485,504	507	2,214,055	1,173,446	3.21	30.78	16.31
Hop-In	6/30/75	36	11,502	8,778,135	763	347,617	206,726	2.36	30.22	17.97
UtoteM	2/28/75	922	307,410	153,883,813	501	7,865,006	4,247,100	2.75	25.58	13.82
Southland	12/31/74	5,171	1,820,075	1,289,000,000	708	46,326,044	23,000,246	1.78	25.45	12.64
Circle K	4/30/75	1,024	359,746	228,325,795	634	9,051,035	4,718,035	2.06	25.15	13.11
Con. Ind.	5/25/75	218	71,344	68,276,208	957	1,353,000	677,853	.99	18.96	9.50
Little General	12/28/74	550	196,014	93,073,758	474	2,921,742	1,460,871	1.57	14.90	7.45
Munford	1/ 2/75	1,348	472,108	199,984,440	423	5,671,129	3,151,633	1.58	12.01	6.68
Stop-N-Go	6/26/75	168	56,784	49,612,731	874	486,174	244,174	.49	8.56	4.30
Natl. Con.	7/30/75	801	292,365	196,226,000	671	1,717,000	1,259,000	.64	5.87	4.30
Dillon	6/28/75	188	67,340	50,557,217	751	(724,916)	(395,659)		(10.76)	(5.87)
Totals		10,975	3,833,741	$2,441,618,010	$636	$81,124,869	$41,801,977	1.71%	$21.16	$10.90

$DPD Ranking	Company	Year Ended	# of Stores	Store Days	Small Food Store Sales	Average Sales Per Store Per Day	Sales Increase Per Store Per Day	Pretax Profit	Inventory Valuation Method	After Tax Profit	After Tax Profit As A % Of Sales	Profit Per Store Per Day Pretax	Profit Per Store Per Day After Tax
1.	Circle K	4/30/80	1,200	431,514	$ 381,203,000	$ 883	$+ 84	$ 31,703,000	FIFO	$ 16,948,000	4.45%	$73.47	$39.28
2.	Shop & Go	4/03/80	381	140,609	108,651,170	771	+ 84	8,535,351	LIFO	4,476,110	4.12	60.70	31.83
3.	National Convenience	6/30/80	817	296,192	306,929,000	1,036	+117	13,295,000	FIFO	8,050,000	2.62	44.88	27.18
4.	Li'l Champ	5/03/80	138	49,710	30,446,909	612	+ 68	2,195,618	LIFO-Gas FIFO-Stores	1,172,958	3.85	44.17	23.60
5.	Dillon	6/28/80	324	114,478	178,117,909	1,566*	+219	5,000,801	LIFO	3,133,502	1.76*	43.68	27.37
6.	CONNA	5/25/80	336	118,664	182,559,000	1,538	+107	4,751,246	FIFO	2,517,246	1.39	40.04	21.21
7.	Southland	12/31/79	6,805	2,446,127	2,658,798,000	1,087	+137	93,991,938	LIFO	68,815,350	2.59	38.42	28.13
8.	UtoteM	2/29/80	927	339,282	280,296,000	826	+ 97	11,099,332	FIFO	5,721,287	2.04	32.71	16.86
9.	Sunshine Jr.	12/31/79	336	118,980	59,729,229	502	+ 32	3,691,867	FIFO	2,006,898	1.96	31.03	16.86
10.	Little General	12/29/79	464	168,896	141,487,000	838	+155	4,342,056	FIFO	2,171,028	1.54	25.71	12.85
11.	Hop-In	6/30/80	140	49,776	37,260,652	749	+ 35	1,193,129	LIFO-Gas FIFO-Stores	728,129	1.95	23.97	14.63
12.	Mini Mart	8/31/79	115	41,975	28,690,752	684	+119	787,684	FIFO	470,684	1.64	18.77	11.21
							+ 57	977,000	FIFO	586,590	23	2.22	1.34
13.	Munford	1/03/80	1,184	439,264	257,586,000	586							
			13,167	4,755,467	$4,651,664,621	$ 978	+119	$181,564,022		$116,797,782	2.51%	$38.18	$24.56

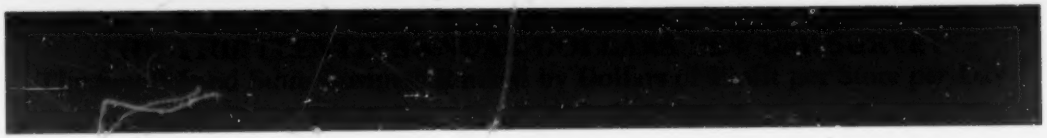
[redacted]

Dollars per Day Profit Ranking	Company	Year Ended	Number of Stores	Store Days	Small Food Store Sales	Average Sales per Store per Day	Sales Increase per Store per Day	Percent of Sales Increase in SDPD Sales	Pretax Profit	Inventory Valuation Method	After Tax Profit	After Tax Profit as a Percent of Sales	Profit per Store per Day Pretax	Proper per Store per Day After Tax
1	Shop & Go	1-01-82	105	147,120	$134,659,000	$913	$ +65	8%	$ 11,619,000	LIFO	$ 6,251,285	4.64%	$78.81	$42.40
2	Circle K	1-30-82	1,211	442,015	413,300,000	1,003	+16	5%	26,853,000	LIFO	14,769,150	3.33%	60.75	33.41
3	Southland	12-31-81	7,002	2,535,749	3,534,600,000	1,391	+175	14%	153,859,200	LIFO	86,649,960	2.45%	60.67	34.17
4	National Convenience	6-30-82	922	320,060	415,300,000	1,298	+156	14%	19,360,000	FIFO	12,185,000	2.93%	60.49	38.07
5	Lil' Champ	5-01-82	162	56,120	41,534,000	736	+56	8%	2,722,000	LIFO	1,550,000	3.73%	48.25	27.47
6	Dillon	7-03-82	349	127,133	141,373,213	1,109	+77	7%	5,271,000	LIFO	3,011,777	2.13%	41.36	23.63
7	Little General	12-26-81	460	167,140	171,200,000	1,022	+106	12%	1,257,000	FIFO	2,128,500	1.24%	25.12	12.71
8	Mini Mart	8-31-81	111	41,241	29,982,772	727	+57	9%	981,750	LIFO	543,272	1.81%	23.80	13.17
9	Sunshine Jr.	12-31-81	354	129,027	72,450,668	562	+40	8%	2,821,193	LIFO	1,595,812	2.20%	21.89	12.37
10	CONNA	5-30-82	434	154,700	237,466,000	1,535	-54	-3%	2,541,000	FIFO	1,632,000	.68%	16.42	10.55
11	Munford	12-31-81	987	383,292	283,000,000	738	+88	13%	2,624,500	FIFO	1,810,035	.64%	6.85	4.72
TOTALS			12,400	4,504,800	$5,504,965,653	$1,222	$+136	+13%	$232,912,913		$132,126,821	2.40%	$51.70	$29.33

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.

Gasoline sales for the year were $2,603,083,648 as shown on page 37.

Total sales for both food and gasoline were $8,108,049,301.



Dollars per Day Profit Ranking	Company	Year Ended	Number of Stores	Store Days	Small Food Store Sales	Average Sales per Store per Day	Sales Increase per Store per Day	Percent of Sales Increase in SDPD Sales	Pretax Profit	Inventory Valuation Method	After Tax Profit	After Tax Profit as a Percent of Sales	Profit per Store per Day Pretax	Profit per Store per Day After Tax
1	Shop & Go	3-31-83	115	119,240	$133,171,000	$ 892	$ -21	-2%	$ 1,175,069	LIFO	$ 6,420,742	1.82%	$78.71	$43.02
2	National Convenience	6-30-83	1,012	352,910	428,600,000	1,214	-84	-6%	22,951,000	FIFO	11,226,000	3.32%	65.03	40.31
3	Southland	12-31-82	7,165	2,585,396	3,960,000,000	1,532	+138	+10%	153,431,400	LIFO	87,825,945	2.22%	59.34	33.97
4	Circle K	1-30-83	1,221	443,835	460,500,000	1038	+35	+3%	21,158,000	LIFO	13,286,900	2.88%	54.13	29.94
5	Lil' Champ	1-30-83	170	60,121	50,005,000	828	+92	+13%	3,123,000	LIFO	1,779,000	3.56%	51.68	29.14
6	Mini Mart	8-31-82	110	40,150	28,313,593	705	-22	-3%	1,301,500	LIFO	691,200	2.45%	32.41	17.2[illegible]
7	Little General	12-15-83	131	156,881	173,691,000	1,107	+85	+8%	1,050,000	FIFO	2,025,500	1.16%	25.81	12.90
8	Casey's General Store	1-30-83	377	130,651*	41,356,273*	789	+53	+7%	2,961,528	LIFO	1,763,128	—*	22.67	13.49
9	Sunshine Jr.	12-30-82	358	129,584	73,801,966	570	+8	+1%	2,350,785	LIFO	1,415,640	1.92%	18.14	10.92
10	Munford	12-30-82	959	354,172	293,602,000	829	+91	+12%	5,385,000	FIFO	3,677,955	1.25%	15.20	10.38
11	Dairy Mart	1-31-83	113	51,646	52,102,000	1,009	+75	+8%	582,000	LIFO	139,000	.84%	11.27	8.50
12	CONNA	5-29-83	135	158,158	215,897,000	1,551	+19	+1%	(273,000)	FIFO	88,000	(.03%)	(1.72)	.56
TOTALS			12,796	4,613,050	$5,911,012,832	$1,310	$ +88	+7%	$231,771,904		$133,611,510	2.25%	$50.24	$28.97

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.

Gasoline sales for the year were $2,720,772,002.

Total sales for both food and gasoline were $8,664,811,834.

*Casey's store sales for company operated stores only.

GASOLINE SALES, CONVENIENCE STORES AND BIG OIL COMPANIES

In 1964, John Roscoe was the first to sell gasoline using a remote controlled, self service pump. Although convenience stores around the country adopted the console method, by 1976 convenience stores accounted for only 1% of the total U.S. gasoline market.

By 1982, C-type stores had a 12% share of a 100 billion gallon market. Self-service gasoline, declines in gasoline sales, and dilapidated major brand stations forced the major oil companies to change their marketing methods.

At first, most companies thought that "pumper" stations were the answer to their volume problems. Pumper stations had no service bays—instead there were many pumps surrounding a central sales location. Prices were usually low.

Many companies still refer to certain locations as "pumpers", but the concept of the pumper fails to produce enough margin dollars to pay expenses when pumpers compete with each other. Increases in gallonage continue to come from the decline of the traditional station.

Our review of gasoline sales begins with the eleven chains in the Survey. Then, we include a survey of the twelve largest oil companies. They are most likely to affect the convenience store industry in the years ahead.

We also show the most popular design for new major brand stations. We've called it "Ciosk." We include a statement by one of the Citgo veterans who helped develop it.

GASOLINE OPERATIONS IN SMALL FOOD STORES

These eleven chains sold 2,926,108 gallons of gasoline in 1983. The total national market for highway gasoline was 99.4 billion gallons in 1983. These eleven chains account for 2.94% of the gasoline sales in the United States in 1983 through their 7,378 outlets.

Our best estimate of the amount of gasoline sold through all C-type stores (includes traditional convenience stores, plus other food and gasoline combinations) for 1983 is 14,620,349 gallons or 14.71% of the highway gasoline sold in the United States. We estimate that there are about 53,000 convenience-type stores in the United States, and that 63% of them sell gasoline. On the average they sell 1,201 gallons of gasoline per day per store. C-type stores increased their percentage of the national market by 2.62% in 1983. Over 20% of the gasoline sold in the United States will be sold through this type of an outlet by 1985. In 1976, only 1% of the total gasoline sold in the United States was sold through convenience stores.

BEST ESTIMATE OF THE PERCENTAGE OF TOTAL GASOLINE SOLD IN THE UNITED STATES BY C-TYPE STORES—1983

Year	# of C-Stores	% of C-Stores With Gasoline	# of Gas Units	Gallons Pumped Per Unit Daily	Gallons Pumped Per Unit Yearly	Total Gallons Pumped	Amount of Highway Gas Consumed—Billions of Gallons	% of National Market Supplied By C-Stores
1982	50,000	59.28%	29,641	1,101	401,865	11,909,352	98.5	12.09%
1983	53,000	62.93%	33,352	1,201	438,365	14,620,349	99.4	14.71%

Southland's numbers heavily weigh the Dollars Per Day Survey.

Southland was a late entry into the gasoline business (they had only 75 units in 1970; just 2% of their stores had gasoline at that time), and today has a far lower percentage of gasoline units than the other chains in the Survey. (41% of Southland's store units sold gasoline in 1983, versus 66% of the stores operated by the rest of the Survey chains).

To compute a better estimate of the total percent of the national gasoline market supplied by C-type stores, we have adjusted the Survey figures as follows:

Estimate of total of C-type stores	53,000
Less Southland's 13.8% of total C-type stores	–7,299
C-type stores other than Southland's	45,701
Multiplied by the 66.4% having gas units	× 66.4%
Gasoline units other than Southland's having gas units	30,345
Plus Southland's gasoline units (9.9% of industry total)	+ 3,007
Total C-type stores with gasoline units	33,352
Percentage of the total 53,000 C-type store units with gasoline	62.93%

Many of these units were developed from gasoline stations and by people with gasoline backgrounds. Units springing from these backgrounds typically develop higher gasoline gallonages per unit than those developed by the traditional convenience stores in the Dollars Per Day Survey. Our estimate of the percentage of the gasoline sold through C-type stores should be considered a base estimate. It is likely that the number of units, the amount of gasoline sold, and the percentage of the national market supplied by C-type stores is higher than the figures shown in this estimate.

In addition, while the number of traditional gasoline units declines each day, the number of C-type gasoline units increases each day. If traditional convenience store operators improve their daily gallonages of those of the gasoline background operators, there will be dramatic changes in the amount and percentage of the national market supplied by C-type gasoline units.

C-TYPE STORE GASOLINE SALES

Using the average of the eleven chains in the Dollars per Day Survey as the base

Year	# of C-Stores	% of Stores with Gas Pumps	# of Gas Units	Gallons Pumped per Unit	Total Gallons Pumped	Amount of Highway Gas Consumed Billions of Gallons	Percent of Nat'l. Market Supplied by C-Stores	Increase	Percent of Increase Over Previous Year
1980	39,000	44.45%	17,160	359,890	6,175,712,000	101.2	6.10%		
1981	39,000	46.76%	18,330	379,600	6,958,068,000	99.6	6.99%	+0.89%	14.2%
1982	50,000	49.11%	24,555	401,865	9,865,663,000	98.5	10.01%	+3.02%	43.2%
1983	53,000	53.14%	28,164	438,365	12,346,111,000	99.4	12.42%	+2.41%	24.1%

CONVENIENCE STORES WITH GASOLINE UNITS

	Company	Number of Stores	Number of Gasoline Units	Percent of Stores With Gasoline	Gasoline Units Added During Year	Stores Added During Year
1	Shop & Go	430	307	71%	21	15
2	National Convenience	1,081	775	72%	80	69
3	Southland	7,299	3,007	41%	180	134
4	Circle K	2,185	1,463	67%	665[1]	964[2]
5	Lil' Champ	183	101	56%	19	13
6	Little General	436	212	49%	4	5
7	Casey's	427	427	100%	50	50
8	Sunshine Jr.	345	321	93%	-1	-13
9	Munford	916	469	51%	-12	-43
10	Dairy Mart	176	28	16%	5	33
11	CONNA	405	268	66%	-21	-30
	Totals	13,883	7,378	53.1%	+990	+1,197

1. Circle K Purchased 604 gasoline units from UtoteM on 12-28-83. Added 61 other gasoline units.
2. Circle K Purchased 960 stores from UtoteM on 12-28-83. Added 4 other Net Stores.

RECAP OF IMPORTANT GASOLINE STATISTICS FOR THE CHAINS IN THE SURVEY

	1980	1981	1982	1983	Increase
Number of Gasoline Units	5406	5,799	6,029	7,378	+1,349
Gallons Sold	1,879,110,571	2,112,975,731	2,328,127,593	2,926,108,199	+597,980,606
Percent of Total U.S. Highway Gallons Used	1.86%	2.12%	2.36%	2.94%	+.50%
Average Gallonage Gasoline Unit per Day	986	1,040	1,101	1,201	+100
Gasoline as a Percent of Total Sales	30.8%	32.10%	31.07%		
Average Retail Price in Cents per Gallon	114.1¢	123.1¢	115.0¢	111.4¢	-3.6¢

TOTAL GASOLINE SALES

	Company	Dollar Sales
1	Shop & Go	$ 118,084,000
2	National Convenience	344,841,800
3	Southland	1,516,600,000
4	Circle K	382,200,000
5	Lil' Champ	27,786,139
6	Little General	51,064,020
7	Casey's	162,063,970
8	Sunshine Jr.	76,472,298
9	Munford	415,522,000
10	Dairy Mart	13,208,730
11	CONNA	152,301,000
	Total Dollars of Gasoline Sold	$3,260,143,957

Gasoline

Gasoline facilities continue to increase, both in number and as a percentage of store Survey. Here's a recap of their growth in the past eleven years.

STORES WITH GASOLINE UNITS

Survey Year	Number of Stores	Number of Stores with Gas Units	Gas Units Added During Year	Percent of Stores With Gas
1974-Fourth Survey	9,258	1,964		21.21%
1975-Fifth Survey	10,143	2,147	194	21.16%
1976-Sixth Survey	11,356	2,786	557	24.53%
1977-Seventh Survey	11,953	3,792	959	31.72%
1978-Eighth Survey	12,597	4,584	792	36.38%
1979-Ninth Survey	12,920	5,153	569	39.88%
1980-Tenth Survey	13,167	5,630	447	42.76%
1981-Eleventh Survey	12,445	5,533	442	44.45%
1982-Twelfth Survey	12,400	5,799	393	46.76%
1983-Thirteenth Survey	12,276	6,029	480	49.11%
1984-Fourteenth Survey	13,883	7,378	990	53.14%

SCHEDULE OF IMPORTANT GASOLINE INFORMATION

Company	# of Gas Units	Number of Gallons Sold This Year	Gas Operating Days	Average Gallons Sold per Day per Gas Unit	Gas Margin per Day Per Gas Unit	Gas Margin per Gallon	% of Sales Contributed by Gasoline	% of Margin
1 Shop & Go	307	106,000,000	107,926	982	$31.07	3.2 cents	36.9%	N/A
2 Nat'l Convenience	775	310,000,000	269,010	1,152	77.18	6.7 cents	39.7%	10.6%
3 Southland	3,007	1,361,200,000	1,064,615	1,279	N/A	N/A	25.5%	N/A
4 Circle K	1,463	346,000,000	378,731	915	62.22	6.8 cents	37.1%	9.5%
5 Lil' Champ	101	24,942,675	33,489	745	30.61	4.1 cents	31.1%	5.5%
6 Little General	212	44,793,840	76,440	586[1]	N/A	N/A	22.6%	N/A
7 Casey's	427	145,128,570[2]	112,155	1,294	100.86	7.8 cents	63.4%	34.6%
8 Sunshine Jr.	321	68,646,587[2]	117,165	586	N/A	N/A	52.0%	N/A
9 Munford	469	373,000,000	170,716	2,185	N/A	N/A	N/A	N/A
10 Dairy Mart	28	12,396,527	9,305	1,332	N/A	N/A	N/A	N/A
11 CONNA	268	134,000,000	97,552	1,374	N/A	N/A	36.8%	N/A
Totals	7,378	2,926,108,199	2,437,104	1,201	N/A	N/A	N/A	N/A

1. We estimated that Little General's gallons sold per day were the same as Sunshine Jr. stores.
2. Gasoline gallons sold was determined by dividing dollars of gasoline sold as reported in the annual report by Southland's actual average retail price of $1.134.

SHOP & GO GASOLINE

	Year Ended 04 02 81	Year Ended 04 01 82	Year Ended 03 31 83	Year Ended 5 29 84
Gross Margin From Gasoline Sales	$ 3,711,000	$ 3,643,000	$ 2,813,000	$ 3,351,000
Number of Gasoline Units	265	268	286	307
Gasoline Operating Days	8,980	97,006	107,380	107,926
Gas Margin Per Unit Per Day	$41.61	$37.55	$26.48	$31.07
Total Gallons Sold	42,000,000	49,000,000	71,000,000	106,000,000
Average Gallons Sold per Unit per Day	470	505	689	982
Average Gallons Sold per Unit per Month	14,100	15,150	20,670	29,460
Margin Received per Gallon Pumped	8.8 cents	7.4 cents	3.8 cents	3.2 cents

CIRCLE K GASOLINE

	Year Ended 04 30 79	Year Ended 04 30 80	Year Ended 04 30 81	Year Ended 04 30 82	Year Ended 04 30 83	Year Ended 04 30 84
Total Gasoline Sales	$108,400,000	$151,900,000	$227,100,000	$283,400,000	$287,300,000	$382,200,000
Total Gallons Sold	155,900,00	151,200,000	192,500,000	230,700,000	255,200,000	346,700,000
Number of Gas Units	677	726	733	780	798	1,463
Gas Operating Days	240,700	256,749	269,904	279,759	287,976	378,731
Average Price at Retail per Gallon Sold	69.5 cents	98.5 cents	117.9 cents	122.8 cents	112.6 cents	110.2 cents
Average Gallons Sold per Unit Per Day	648	600	713	821	886	915
Average Gallons Sold per Units per Month	19,710	18,300	21,687	25,063	26,580	27,450
Average Margin Per Gallon of Gasoline Sold					6.3 Cents	6.8 Cents
Total Gasoline Gross Margin					$16,077,600	$23,575,600
Gasoline Margin as a % of Total Company Margin					9.26%	9.50%

NATIONAL CONVENIENCE STORES GASOLINE

	Year Ended 06 30 79	Year Ended 06 30 80	Year Ended 06 30 81	Year Ended 06 30 82	Year Ended 06 30 83	Year Ended 06 30 84
Total Gasoline Sales	$72,600,000	$127,500,000	$178,300,000	$255,170,000*	$255,088,000	$344,811,800
Total Gallons Sold	114,500,000	155,500,000	182,200,000	216,500,000	231,600,000	310,000,000
Number of Gas Units	118	146	178	385	695	775
Gas Operating Days	135,917	157,666	168,168	193,941	233,545	269,010
Average Gallons Sold per Unit per Day	842	986	1,083	1,116	991	1,152
Average Gallons Sold Per Unit per Month	25,610	29,990	32,941	33,945	29,730	34,560
Margin per Gallon Sold	5.8 cents	8.7 cents	7.2 cents	7.3 cents	6.2 cents	6.7 cents
Total Gas Margin	$ 8,214,000	$ 13,328,500	$ 13,118,400	$ 15,801,500	$14,359,200	$20,770,000
Gas Margin per Unit Per Day	$60.65	$85.80	$78.00	$81.47	$61.48	$77.18

*14,472,000 gallons of gasoline were sold on a commission-only basis. We have increased the NCS gasoline sales as shown in the report at the rate of 111.1 cents per gallon, or $49,541,808 to arrive at total gasoline dollar sales.

SOUTHLAND'S GASOLINE 7-ELEVEN

	Year Ended 12 31 78	Year Ended 12 31 79	Year Ended 12 31 80	Year Ended 12 31 81	Year Ended 12 31 82	Year Ended 12 31 83
Total Gasoline Sales	$354,500,000	$569,300,000	$912,900,000	$1,195,100,000	$1,311,500,000	$1,516,600,000
Total Gallons Sold	616,200,000	675,500,000	792,900,000	976,000,000	1,176,000,000	1,361,200,000
Number of Gas Units	1,857	2,107	2,246	2,547	2,827	3,007
Average Price at Retail per Gallon Sold	57.5 cents	84.3 cents	115.1 cents	123.0 cents	116.0 cents	111.4 cents
Gas Operating Days	625,833	725,305	796,569	869,112	973,125	1,061,615
Average Gallons Sold per Unit per Day	984	933	995	1,100	1,185	1,279
Average Gallons Sold per Unit per Month	29,930	28,378	30,347	33,458	35,560	38,370

[redacted]

Assuming 1,361,200,000 gallons sold per year

Margin Per Gallon	Total Gas Margin	Margin per Unit at 1,279 Gallons Per Day
10¢	$136,120,000	$127.90
9	122,508,000	122.50
8	108,896,000	102.32
7	95,284,000	89.53
6	81,672,000	76.74
5	68,060,000	63.95
4	54,448,000	51.16
3	40,836,000	38.37
2	27,240,000	25.58
1	13,612,000	12.79

The annual difference of 1 cent a gallon affects 7-Eleven gas margin by $13,612,000.

[redacted]

Average Dollar Sales of Gasoline Per Store Per Year	$527,459
Average Gross Profits on Gasoline	$36,917
Average Gross Profit Per Day Per Store on Gasoline	$100.86
Average Gallons sold per store if the average retail price was $1.111	473,482
Average Margin Per Gallon if the average retail price was $1.111	7.79 cents
Average gallons sold per day per store if the average retail price was $1.111	1,294
Average gallons sold per day per store (1,294) times total gasoline days operated (112,155) determines total Casey's annual gallonage to be	145,128,570

1. On all stores open more than one year as noted in the Annual Report.

LIL' CHAMP FOOD STORES GASOLINE

Commission Operated Units: 33 units—12,078 gasoline operating days.

One Annual Report states that gasoline commission is 12% of other income, or $160,200 for these 33 units.

If we assume that the gas commission is 2 cents per gallon sold, Lil' Champ jumped 8,010,000 from these units, or 663 gallons per gas operating day.

Total actual gasoline margin in commission operated gasoline units was $160,200, or $13.26 per gasoline operating day.

Company Owned Gasoline Units—68 units 19 new units in the year—21,411 gasoline operating day.

The Annual Report states that gasoline sales were $18,863,000. If we assume the average selling price was $1.114 per gallon, Lil' Champ sold 16,932,675 gallons, or 791 gallons per gasoline operating day.

The Annual Report also states that the margin on gasoline sales was 4.59%. On the assumed retail average price of $1.114, the average gross profit per gallon sold was 5.11 cents. Total actual gasoline margin dollars in company owned units was $865,000, or $40.40 per gasoline operating day.

Based on the above assumptions, Lil' Champ's total gasoline sales and margins are:

Total Gallons Sold	24,942,675
Average Gallons Per Day	745
Average Margin Cents per Gallon Sold	4.11 cents
Total Gasoline Margin	$1,025,200
Average Gasoline Margin per Gasoline Operating Day	$ 30.61
Total Gasoline Operating Days	33,489

WHAT IS THE VOLUME POTENTIAL FOR C-TYPE UNITS?

It depends on how many there are. Let's take a look at it:

Present State # of Stores Gas	If Total Store Sales Are 6.25% of National Food Store Business Average Daily Store Sales	If Total Store Sales Are 10% of National Food Store Business Average Daily Sales Would be	99.4 Billion Gallon Gas Market Average per Unit 1,201 Gallons Per Day Percentage of National Market
53,000 C-Type Stores with 33,352 Gas Units	$853	$1,364	14.7%
If there were:			
75,000 C-Type Gas and Food Stores	$603	$ 964	33%
100,000 C-Type Gas and Food Stores	$452	$ 723	44%
200,000 C-Type Gas and Food Stores	$226	$ 362	88%

The ciosk is a combination of the pumper and the convenience store. It was developed first by Citgo, and then copied by most major oil companies because it is believed to be the least costly way to move high volumes of gasoline.

The layout of a ciosk resembles the pumper. It has a central sales area that is kept small in order to improve control. If your business is based on convenience, the small ciosk approaches the optimal size.

The following article is reproduced from a Citgo employee's original description of how the ciosk was developed.

The CITGO QUIK MART evolved out of test marketing and research done by John Dewell and the Market Development Staff in the late sixties and early seventies. The QUIK MART name was identified in 1971 and the unique building design was first constructed in 1972.

The QUIK MART is a corporate success story and therefore there is not a "first" QUIK MART, but rather four that were built in broad geographic areas to test the concept. The first construction completed was on August 18, 1972, in Charlotte, North Carolina, at I-85 and Freedom Drive.

The early 70's was a unique time in gasoline marketing. The "independent" gasoline pumper had increased its market share to 35%; the gasoline pricing structure of the majors to distributors, dealers and consumers did not reflect proper pricing for product, services, convenience and value; self-service gasoline was being legalized in most areas of the country, and nearly all marketers had 10 to 40 years of investment in their traditional facilities. The QUIK MART design, merchandising and operation was coordinated to take advantage of a changing market environment and consumer attitudes; plus, it looked ahead to the need for supplementing gasoline revenue with the sale of convenience merchandise.

The facility, 12′ x 24′ (288 square feet) was placed on a large pump island with dual product dispensers at each corner. The salesroom and gasoline dispensing area was covered by a single canopy of 40′ x 44′. This unique design provided the self-serve gasoline customers with "front door" convenience and unequaled operating advantages of total visibility and control with one employee per shift.

The capacity of the facility and employee far exceeded expectations. Within months of opening the facilities, they were operating at three times the requisition gasoline volumes and double the convenience sales. The success of the facility was so great that a decision was made to restructure the CITGO Marketing asset base around the new concept.

As with most new concepts, they are modified and changed as operating experience and research point out opportunities. The present QUIK MART concept and design has, remarkably, changed very little from those first stores. It began as a 288 square foot facility and was enlarged to 508 square feet. The color scheme was changed from the brown, grey and yellow theme to one of brown and blending earth tones. Finally, to further the control over the unit by the single clerk, the cash register area was elevated.

Technology provided the greatest change in the operation and control of the stores. The high store volumes created the need for utilizing the cash flow and insuring its integrity. A centralized data collection and monitoring system provided the control and the ability to minimize field supervisory expense.

Perhaps the QUIK MART facility and marketing concept doesn't seem far out in 1984 since most new facilities by the oil industry have the same marketing theme and the same basic type of facility, but in 1972 that wasn't the case.

[redacted]

Between them, these 12 companies sell 66% of the gasoline in the United States. They are the dominant force in gasoline marketing, and gasoline is still their highest volume product.

We have read all of the annual reports and form 10K's for all 12 companies. They are ranked in order of volume of gasoline refined. We have extracted everything they have printed or said in these reports about gasoline marketing.

[redacted]

	1980	1981	1982	1983
Sales	$110,190,644,000	$114,922,561,000	$103,558,545,000	$94,733,971,000
Earnings	5,350,070,000	4,826,215,000	4,185,932,000	4,977,957,000
Number of Employees	177,000	180,000	173,000	156,000
Return on Average Shareholder's Equity	21.8%	17.8%	14.9%	17.2%
United States Motor Gasoline Sales as a Percentage of Exxon Worldwide Refined Product Sales (by barrels)	11.0%	10.4%	11.1%	12.4%
Percentage of Company Stock Owned by Corporate Officers and Directors	1/10 of 1%	1/10 of 1%	1/10 of 1%	1/10 of 1%
Number of Pages in Annual Report	52	52	44	48
Number of Pages Devoted to Gasoline Marketing	1/4	2/3	3/4	2/3

Number of Exxon Gasoline Stations in the United States:

12-31-83	18,707
12-31-82	20,600
12-31-81	20,585
12-31-80	22,886
12-31-79	N/A
12-31-76	N/A
12-31-71	N/A

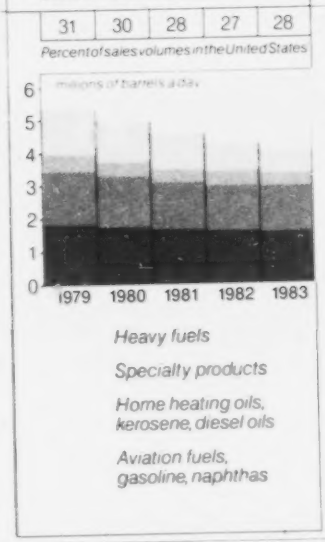
Imperial also is testing its own debit card in Canada, and several European affiliates are testing automation equipment. Esso Norway is participating in a universal debit card system run by Norwegian banks. Esso Sweden extended its automated credit card billing system to over 60 percent of its stations.

Service station upgrading continued. More stations feature new design.

The number of service stations in the company's worldwide chain was reduced by 5,000 to a total of just under 50,000, as Exxon continued to close relatively low-volume stations with marginal profitability. The throughput of the average Exxon station has increased by 17 percent since 1979.

The company continued to install the new design for station architecture and signs which it introduced in 1981. Approximately 5,000 Exxon stations now reflect the attractive new design.

Petroleum product sales volumes



Electronic payment systems tested in U.S., expanded in Europe.

A variety of systems for automating service station purchases were put in commercial use or tested during the year. In a Houston test involving 10 Exxon stations and a local bank, holders of the bank's debit cards may use the cards to purchase Exxon products. Amounts due are transferred from their checking accounts at the time of purchase. In Phoenix, Arizona, Exxon USA is conducting a test of an Exxon debit card which permits purchase settlement through any bank.

Electronic payment systems are appearing in a growing number of the company's service stations. In Houston (top), a customer fills up at one of the stations participating in an Exxon USA test that lets customers pay for purchases with the debit cards of a local bank. A customer at Waterloo, Belgium, pays for gasoline by inserting a bank debit card in the card reader that automatically transfers the amount of the purchase from the customer's bank account to the station's account.

	1980	1981	1982	1983
Sales	$27,831,862,000	$31,729,171,000	$29,783,000,000	$29,194,000,000
Earnings	1,915,314,000	1,921,800,000	1,826,000,000	1,868,000,000
Number of Employees	56,401	58,665	57,810	56,734
Return on Average Shareholder's Equity	21.6%	19.2%	16.5%	15.7%
United States Motor Gasoline Sales as a Percentage of Amoco Worldwide Refined Product Sales (by barrels)	43.2%	46.8%	46.5%	46.3%
Percentage of Company Stock Owned by Corporate Officers and Directors	59 100th of 1%	65 100th of 1%	N A	N A
Number of Pages in Annual Report	56	53	52	52
Number of Pages Devoted to Gasoline Marketing	1-1 2	2	1	1
Number of Amoco Gasoline Stations in the United States:				
12-31-83	17,800			
12-31-82	17,800			
12-31-81	20,100			
12-31-80	21,300			
12-31-79	21,500			
12-31-76	24,800			
12-31-71	N A			

Amoco's Discount for Cash and credit-card programs continue to enable us to appeal successfully to a broader customer base than in the past. The MultiCard, our new fee card, had a particularly successful introduction, and continues to gain acceptance. We also acquired more than a million new regular credit-card accounts as the result of solicitations sent to a list of consumers with high credit ratings.

After successful test marketing in five metropolitan areas in 1983, Amoco Ultmate,™ our new synthetic motor oil, is being introduced into all of our U.S. marketing areas. Benefits from using synthetic oil include easier starting in cold weather and superior stability at high operating temperatures. It is anticipated that this new product will become increasingly popular with our retailers and motorist customers.

Consolidation efforts in 1983 included the withdrawal from petroleum marketing in upper New York state, and the closing of two district offices. We are also consolidating our credit-card operations into one center in Des Moines, Iowa. The positive effects of these and other actions to redeploy underutilized assets resulted in significant improvements in marketing efficiency. There was a 12 percent increase in the average throughput of motor fuels in 1983 at Amoco service stations supplied directly by the company. Also, the barrels of refined products sold per marketing employee increased another 7 percent to 240 per day in 1983.

Amoco Oil continued to be the leading seller of lead-free gasolines in its marketing area in 1983, with a 12 percent market share. In particular, our premium lead-free gasoline continues to be well-received by motorists due to its superior quality. The popularity of these products was a major reason behind the gasoline sales gain at our direct-supplied branded service stations.

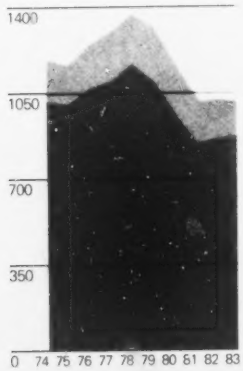
Marketing: In U.S. marketing, our program of upgrading operations continued with the development of new and rebuilt gasoline pumper outlets, many of which included small convenience food shops. We have concentrated these efforts in our metropolitan marketing areas. In 73 percent of these marketing areas, we ranked either first or second in gasoline market share in 1983, vs. 67 percent in 1982.

Our Image program, designed to provide continuity and enhance the appearance of Amoco retail outlets, has now been extended to more than 2,300 locations. Also, Certicare, Amoco's program of guaranteed car service at branded dealer outlets, now is available at several hundred locations in 10 metropolitan markets. Further expansion of Certicare is planned in 1984.

Refined Product Sales

thousands of barrels daily

Foreign
United States



In the United States, Standard's marketing of petroleum products is concentrated in the Midwest, East, and Southeast. It supplies about 17,800 gasoline retail outlets, of which 4,900 are either owned or leased. Except for a few outlets, all are operated by independent dealers. Many of Standard's service stations have self-service or mini-service islands, and most outlets offer two grades of lead free gasoline in addition to leaded regular gasoline.

	1980	1981	1982	1983
Sales	$19,959,000,000	$21,739,000,000	$20,214,000,000	$19,883,000,000
Earnings	1,543,000,000	1,701,000,000	1,605,000,000	1,633,000,000
Number of Employees	36,596	37,273	36,504	35,185
Return on Average Shareholder's Equity	22%	21%	17.1%	15.9%
United States Motor Gasoline Sales as a Percentage of Shell Worldwide Refined Product Sales (by barrels)	57.2%	56.9%	57.0%	55.0%
Percentage of Company Stock Owned by Corporate Officers and Directors	27 100th of 1%	34 100th of 1%	32 100th of 1%	30 100th of 1%
Number of Pages in Annual Report	60	67	60	52
Number of Pages Devoted to Gasoline Marketing	3	5	1-1/3	2-1/4

Number of Shell Gasoline Stations in the United States:

12-31-83	12,100
12-31-82	13,300
12-31-81	13,700
12-31-80	15,400
12-31-79	16,500
12-31-76	19,200
12-31-71	N/A

Oil Products

Earnings in our refining and marketing business declined to $238 million, from $344 million in 1982, mainly because of a $40 million loss in the first quarter due to soft oil markets. Industry statistics are not available yet for 1983, but competitive data for 1976-82 indicates our return on investment in this business was well above the average of our major competitors in those seven years.

Refined products sales volumes rose for the first time in five years, reflecting increased gasoline and jet fuel sales. We continued consolidating and modernizing our service station network, increasing the average amount sold per station to 77,000 gallons per month, up 14 percent from 1982. The gains in gasoline sales volumes and service station throughput were due in part to our 1982-83 programs that added more than 2 million new credit card holders.

Automating credit transactions is a major part of our effort to minimize costs and serve customers more efficiently. In 1983, we field tested electronic credit card terminals and have begun installing them in our service stations.

The $875 million modernizations of our California refineries were completed in 1983. They enable us to process efficiently more lower-cost heavy crude from our California fields into a larger percentage of higher-value light products — gasoline and jet fuel in particular. Sales rose 5 percent for gasoline and a combined 26 percent for jet fuel and distillates on the West Coast in 1983. And our own crude production in California now equals almost 90 percent of our refinery intakes in California.

Oil Products

Our primary objective in Oil Products is to continue as one of the most efficient and profitable refiners and marketers.

We continue to pursue a number of actions in support of this objective—including increased fuel efficiency in refineries, streamlining the logistics of products distribution, and greater flexibility to convert lower-quality heavy crude oils into higher-value light products.

Since 1972, we have reduced fuel consumption at our refineries by more than 20 percent, based on current operations. We continue to invest aggressively for additional improvement in this most profitable area.

Our program to improve marketing efficiency and the appearance and retail image of our station network continues to be successful. Station throughputs averaged 77,000 gallons a month, up 14 percent from 1982.

An important part of our marketing effort is working cooperatively with our independent dealers and jobbers to achieve open, two-way communication. Results to date in improved customer-supplier communications have been noteworthy.

Products

(Continued)

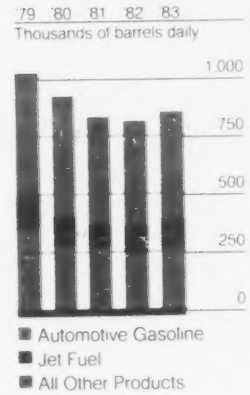
Field testing of electronic terminals at Shell service stations began in 1983. Our objective is to reduce costs by automating credit card transactions while continuing our program to provide customer convenience and quality service. Cost control improvements resulting from this program will benefit not only Shell, but our jobbers and dealers as well. Results to date are favorable and we plan to expand the program throughout our entire marketing area over the next two years.

Total refined products sales volume rose for the first time in five years.

Shell sales averaged 846,000 barrels a day, up 4 percent from 1982 as compared with an estimated decline of 1 percent for total industry.

We continued to be a market leader in gasoline, as sales increased 1 percent, reflecting special programs which have added more than 2 million new active credit card customers since 1982, as well as a modest market upturn.

Automotive gasoline accounts for more than half of total refined products sales, with jet fuel our second largest product line.



Operating Efficiencies — The Company continued to emphasize operating efficiencies and innovative marketing programs.

- Over 2 million new Shell credit card holders were added in late 1982 and early 1983 through a highly successful campaign to attract new customers. Increases in retail service station sales reflected the positive effects of these programs.
- We continued to streamline our retail service station network through modernization and consolidation. Shell remains committed to this strategy to assure its position as one of the most efficient and profitable marketers in the industry.
- Use of heavier, lower cost crude oils was increased in 1983, while we continued to produce a high proportion of high-value products, primarily automotive gasoline, jet fuel and chemical feedstocks.
- High yield of light products was facilitated by modernization of the Company's California refineries, completed in early 1983, and by on-going yield improvement programs at Shell's East of Rockies refineries.
- Progress continued toward energy efficiency goals through both operating and capital programs. Using 1972 unit fuel consumption as a base, Shell has targeted a cumulative 29 percent reduction in energy consumption per unit of output at its refineries and chemical plants by 1986. As of year-end 1983, we had attained a 22 percent reduction, of which 1 percent was applicable to 1983 and 2 percent to 1982.

Refined Product Sales Volumes — Total 1983 refined product sales volumes of 846,000 barrels per day increased 4 percent over 1982 and 2 percent over 1981. Including sales to the Chemical segment, Oil Products sales volumes increased 6 percent over 1982 and 3 percent over 1981. Most of the increase occurred in higher-value light products such as automotive gasoline, jet fuel and chemical feedstocks.

Shell's automotive gasoline sales increased 1 percent over 1982, but declined 1 percent from 1981. However, sales volumes in our direct service station network were up 8 percent in 1983; much of this gain was related to our expanded credit card programs.

We will maintain our very successful efforts to cut costs and increase yields of higher-value products, in order to prosper in this extremely competitive business. This includes continuing to: reduce energy consumption in our refineries, decrease the amount of heavy, less-valuable fuels produced in the refining process, consolidate our distribution and marketing facilities, concentrate on high-volume gasoline stations in key metropolitan areas where we are positioned best, and automate more fully our credit card processing.

To remain among the most efficient and profitable refiner/marketers, in times of shortage and oversupply, generating cash for other parts of our business.

In 1983, Oil Products generated $500 million in after-tax cash income, exceeding capital expenditures by some $200 million.

Marketing

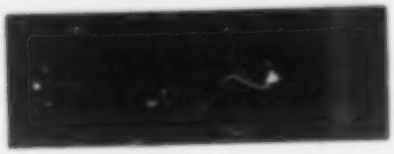
Shell distributes oil products principally under the "Shell" symbol or other trademarks in which the word "Shell" appears. Oil marketing operations are carried out through transportation systems, terminals, bulk distributing plants and, at the end of 1983, approximately 12,100 service stations displaying Shell trademarks. These stations are located in 39 states and the District of Columbia.

The number of bulk distributing plants and service stations was as follows for the periods indicated:

	1983	1982	1981	1980	1979
BULK DISTRIBUTING PLANTS					
Leased or Owned	87	88	92	113	120
SERVICE STATIONS					
Leased or Owned	4,500	4,800	5,300	5,900	6,400
Jobber and other	7,600	8,500	8,400	9,500	10,100
TOTAL	12,100	13,300	13,700	15,400	16,500

High-Volume Service Stations

We continue to stress the upgrading of our service stations — relinquishing older, outmoded stations and adding new high-volume units. The objective is to remain one of the most profitable major domestic petroleum companies and deliver gasoline and other oil products and services to the driving public as efficiently as possible. This high-volume unit, together with many others, helped us increase our average gasoline sales per station by 14 percent in 1983. It is also one of 9 locations for an important Shell test program: installation of the first terminals to automatically "read" credit cards, a first step toward the eventual automation of credit transactions.



	1980	1981	1982	1983
Sales	$32,181,640,000	$39,297,000,000	$18,019,000,000	$11,117,000,000
Earnings	2,642,542,000	2,310,000,000	1,281,000,000	1,233,000,000
Number of Employees	66,745	67,000	60,350	54,683
Return on Average Shareholder's Equity	21.1%	17.6%	9.2%	8.6%
United States Motor Gasoline Sales as a Percentage of Texaco Worldwide Refined Product Sales (by barrels)	19.7%	18.9%	16.4%	18.5%
Percentage of Company Stock Owned by Corporate Officers and Directors	21 100ths of 1%	27 100ths of 1%	27 100ths of 1%	Less than 1%
Number of Pages in Annual Report	92	69	56	52
Number of Pages Devoted to Gasoline Marketing	1	1 3	2 3	1 3

Number of Texaco Gasoline Stations in the United States:

12-31-83	18,000*
12-31-82	18,000
12-31-81	21,000
12-31-80	21,000
12-31-79	28,000
12-31-76	N A
12-31-71	32,000

*National Petroleum News Number of Stations

Downstream investments include units at Puget Sound Plant, *far left*, and expansion of the System 2000 marketing program—all covered by Vice Chairman James W. Kinnear at analysts' meeting.

Marketing

During 1983, the Company increased its U.S. market share of gasoline sales, concentrating on preferred geographical areas that offer the greatest opportunity for profitability.

Construction of the new *System 2000* retail facilities—first introduced late in 1981—continued throughout 1983. These newly designed outlets offer various combinations of self-service, food markets, car washes, and service centers. The bold new colors and graphics that identify Texaco's new retailing look could be seen at over 250 new high-volume facilities by year-end. Another 480 existing Texaco-branded outlets were rehabilitated to conform with the striking *System 2000* format. Additionally, Texaco continued to eliminate high-cost, low-volume stations during the year, while throughput at high-volume outlets rose. Sales through Texaco's 2,600 investment stations averaged over 72,000 gallons a month at year-end, a 30% increase over 1982.

Extensive promotional support and advertising in 1983 emphasized the quality and performance of *Texaco Super Unleaded* gasoline, and boosted Texaco's market share of this more profitable fuel. In addition, such high-revenue products as *Havoline Supreme* motor oils and *Texaco Antifreeze and Coolant* increased their market share throughout the country.

Late in 1983, Texaco retailers were authorized to accept the American Express Card. With this marketing move, Texaco became the only major oil company offering such a wide range of credit services to its branded retailers. With the American Express Card added to the Texaco card, VISA and MasterCard, there are potentially some 130 million credit cards which now qualify for credit card services at Texaco-branded outlets.

The catalytic reforming unit at the Port Arthur refinery is one of several projects designed to upgrade and modernize Texaco's U.S. refining system. This drawing illustrates how—during the process of converting low-octane material into blending components for high-octane gasoline within the reactor—carbon deposits on the platinum catalyst are removed in the adjacent continuous catalyst regeneration unit.

[redacted]

	1980	1981	1982	1983
Sales	$63,726,000,000	$68,587,000,000	$64,137,000,000	$58,998,000,000
Earnings	2,813,000,000	2,333,000,000	1,380,000,000	1,503,000,000
Number of Employees	212,800	206,400	188,000	178,100
Return on Average Shareholder's Equity	23.9%	17.6%	8.5%	10.8%
United States Motor Gasoline Sales as a Percentage of Mobil Worldwide Refined Product Sales (by barrels)	18.9%	16.9%	18.0%	19.0%
Percentage of Company Stock Owned by Corporate Officers and Directors	39 100ths of 1%	N A	62 100ths of 1%	37 100ths of 1%
Number of Pages in Annual Report	63	53	48	48
Number of Pages Devoted to Gasoline Marketing	1 3	1 3	1 3	1-1 12

Number of Mobil Gasoline Stations in the United States:

12-31-83	15,885
12-31-82	16,216
12-31-81	16,564
12-31-80	17,425
12-31-79	17,789
12-31-76	N A
12-31-71	N A

Improving marketing and refining margins

We took major steps to reduce costs and boost throughput in retail operations during 1983. A substantial capital program in the U.S., centered around a new service station design, is aimed at increasing gasoline and diesel sales. In addition, the growing use of electronic equipment in Mobil retail outlets is expected to result in lower expenses in the years ahead. Further efficiencies came from upgrading and consolidating manufacturing operations.

New directions in marketing

The new service station design being introduced in the U.S., which permits dealers to handle larger numbers of customers and service them more rapidly, is expected to substantially increase throughput. Outside the U.S., station configurations continue to emphasize self-serve pumping and the sale of non-petroleum products.

The company led the industry during 1983 in the development of an electronic system to reduce the expense of handling credit card sales in the U.S. Electronic point-of-sale (POS) terminals were installed and on-line in 192 service stations, and a total of 2,400 will be on-line by mid-1985. For cash buyers, the company successfully tested a debit card program using these same POS terminals. The system is now being installed at service stations in Virginia and Maryland and will be expanded rapidly to other parts of the country. The program, which electronically transfers funds from a customer's bank account, should prove popular with consumers attracted by Mobil's "discount for cash" policy.

Overseas, the electronic fund transfer system has proved successful in a number of countries and is now being tested in others. Mobil is also expanding its use of electronic cash registers as a management information tool for station operators in Europe and Australia.

Consolidation of marketing activities continued during 1983. We began phasing out gasoline and distillate marketing in the area served by our Augusta, Kansas, refinery, which was sold. We also sold most of our marketing operations in the Philippines, along with our interest in the Bataan refinery.

The company began marketing some promising new products in 1983. A new formulation of our synthesized motor oil, Mobil 1™ Rally Formula — designed particularly for high-performance and turbocharged engines — is being introduced overseas. We also began marketing the patented Foamspray asphalt process, a low-cost technique for resurfacing and rehabilitating roads. New plastic oil cans with easy-to-pour funnel spouts, aimed at the growing "do-it-yourself" market, also became available.

New electronic equipment allows service station customers to use a variety of credit cards or debit cards for cashless purchases.

Marketing

Mobil Oil's petroleum products are marketed extensively in the United States and in more than 100 other countries. It has approximately 33,000 retail dealer outlets, 47% of which are located in the United States. These products include automotive and aviation gasolines, motor oils and greases, industrial lubricants and greases, marine fuels, jet fuels, lubricants, fuel oil, diesel oil, kerosine, asphalts, naphthas, solvents, waxes, and liquefied petroleum gas. The principal brand names identifying Mobil Oil's products are "Mobil Unleaded," "Mobil Super Unleaded," "Mobil Regular," and "Mobil Premium" gasolines, "Mobiloil," "Mobilheat," "Mobilgrease," "Mobil 1," "Delvac 1," and "Mobil" industrial and marine lubricants and process products.

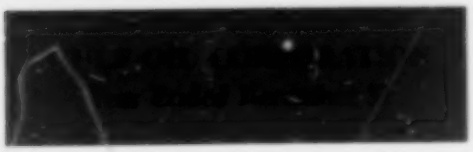
Mobil Oil's petroleum product sales volumes are tabulated below for the years indicated:

Petroleum Product Sales by Category
(Thousands of barrels daily)
Year Ended December 31,

	1983	1982	1981
Automotive gasoline	755	736	710
Distillates (including jet fuel)	679	697	705
Residual fuels	282	320	378
Other products	318	341	345
Total	2,034	2,094	2,138

The following table shows the geographical distribution of petroleum product sales for the year 1983, in thousands of barrels daily:

United States	699
Europe	649
Far East and Australasia	456
Africa	172
Other	58
Total	2,034



	1980	1981	1982	1983
Sales	$28,808,000,000	$30,461,000,000	$30,630,000,000	$28,887,000,000
Earnings	1,407,000,000	1,231,000,000	900,000,000	978,000,000
Number of Employees	58,900	58,500	51,500	42,700
Return on Average Shareholder's Equity	15.3%	12.5%	9.1%	9.9%
United States Motor Gasoline Sales as a Percentage of Gulf Worldwide Refined Product Sales (by barrels)	30.7%	33.5%	33.4%	34.2%
Percentage of Company Stock Owned by Corporate Officers and Directors	62 100ths of 1%	56 100ths of 1%	66 100ths of 1%	22 100ths of 1%
Number of Pages in Annual Report	60	61	32	39
Number of Pages Devoted to Gasoline Marketing	1	3	2-1/3	2

Number of Gulf Gasoline Stations in the United States:

12-31-83	14,908
12-31-82	14,967
12-31-81	15,277
12-31-80	16,055
12-31-79	17,182
12-31-76	N/A
12-31-71	N/A

U.S. Marketing

Early in 1983, Gulf embarked on an ambitious program to improve profitability in its 26-state marketing network. Expenses were pared, employment reduced by 800, and 1,100 directly served stations closed or sold. Further cost reductions are scheduled for 1984.

The Company's strategy has been to move away from low-volume, high-cost outlets to higher volume, more efficient stations in selected metropolitan areas in the east and south. Gasoline sales volumes through Gulf-owned outlets rose 12 percent by year-end to an average of 81,000 gallons per month.

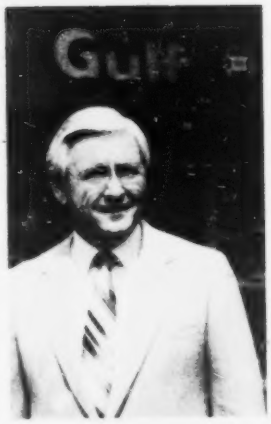
Overall, however, refined product sales declined 4 percent to 685,000 barrels per day as the Company withdrew from uncompetitive marketing positions in upstate New York, Vermont, Michigan and northwestern Ohio.

During the year, Gulf expanded its CarCare program which offers quality service through nationally certified mechanics. By year-end, nearly 90 CarCare centers were operating throughout Florida and in Houston and Atlanta. The Company plans to double that number during 1984 as new outlets are opened in the Nashville, Baltimore, Richmond and Pittsburgh areas.

A distinctive new look was introduced for Company-operated self-service outlets during 1983. These stations incorporate the very latest in prefabricated construction, electronic technology and customer convenience. By year-end 1984, Gulf expects to operate 50 of these newly designed retail outlets.

In addition, programs are under way to mechanize credit card billings and pave the way for fully automated service stations in the future.

Sales of Gulf Kerolite, a clean fuel for portable space heaters, doubled since its introduction in 1982. Sales of Gulflite charcoal starter, the nation's best-selling brand, rose 2 percent. A new brand of self-starting charcoal briquettes will be introduced in 1984. Sales of lubricants, another high-margin product, were up 22 percent.



Refinery modernizations, capable marketing managers and a strong dealer network improve Gulf's marketing performance.

Refining and marketing operations have lost approximately $60 million in each of the past three years, as industry overcapacity and intensified competition have squeezed operating margins. In 1983, for instance, product prices fell nearly $4 a barrel while crude oil costs were reduced by only $3.75 a barrel. Earnings of $113 million for 1983 and $379 million in 1982 were entirely from the liquidation of LIFO-valued inventories.

Refined product sales of 685,000 barrels per day were little changed from 1981, but were 4 percent lower than in 1982, as distillate sales fell 12 percent due to unseasonably warm weather.

Gulf Oil Products Company (U.S. only)

	Millions of Dollars	
	1983	1982
Operating Profit	$ 47	$ 115
Total Assets	3,334	3,531
Capital Expenditures	213	437
Crude Oil Processed (thousand barrels per day)	623	849
Refined Products Sold (thousand barrels per day)	685	715
Chemical Operating Rates (percentage of capacity)		
Aromatics	88	92
Olefins	82	69

The Company's principal refined product sales in the U.S. are gasoline and distillates. These products are subject to seasonal demands and, typically, gasoline sales are moderately higher in the summer and fall. Home heating oil sales peak in the winter and are further influenced by the severity of the weather.

Approximately 15,000 service stations carry the Company's products in the U.S. of which about 16 percent are owned or leased by the Company and the remaining 84 percent are owned by independent dealers or jobbers. These service stations, concentrated primarily in the eastern and southern areas of the U.S., represent about 7 percent of the total number of service stations in the U.S. The Company, rather than jobbers, currently delivers directly to 3,800 of these service stations, which is a reduction of 31 percent from 1982. The Company plans to reduce the number of directly delivered stations to approximately 2,550 within the next few years. It is not anticipated that total retail sales will be significantly affected by this action. No single competitor or small group of competitors dominates the U.S. retail gasoline market.

[redacted]

	1980	1981	1982	1983
Sales	$41,553,474,000	$45,229,000,000	$35,218,000,000	$28,411,000,000
Earnings	2,400,779,000	2,380,000,000	1,377,000,000	1,590,000,000
Number of Employees	40,218	43,281	41,726	40,091
Return on Average Shareholder's Equity	21.7%	20.0%	10.6%	11.6%
United States Motor Gasoline Sales as a Percentage of Chevron Worldwide Refined Product Sales (by barrels)	18.9%	17.8%	19.4%	21.6%
Percentage of Company Stock Owned by Corporate Officers and Directors	1 10th of 1%	1 5th of 1%	1 6th of 1%	1 5th of 1%
Number of Pages in Annual Report	56	53	52	52
Number of Pages Devoted to Gasoline Marketing	1	1-1 3	1	1

Number of Chevron Gasoline Stations in the United States:

12-31-83	11,021
12-31-82	11,295
12-31-81	11,586
12-31-80	12,139
12-31-79	N A
12-31-76	N A
12-31-71	N A

MARKETING

DOMESTIC MARKETING

Three years have passed since the end of federal price controls on gasoline; partly due to this, gasoline prices throughout the U.S. have become severely depressed. While the decline in domestic oil consumption has apparently stopped—in fact, the demand for light petroleum products increased by about 1 percent in 1983 over the previous year—the competition for market shares is formidable. Nevertheless, Chevron's domestic gasoline sales rose 5 percent compared to an industry average increase of only 1 percent. Several factors predominated:

☐ An increasing number of Chevron dealers dealt more vigorously with competition, particularly in the pricing of gasoline and with additional hours of operation.

☐ More Chevron stations—about 360 total—in 1983 utilized computerized and automated sales systems. This allowed for lower station operating costs, thus enabling dealers to decrease prices.

☐ Improvements in distribution efficiency were achieved through a restructuring of our direct delivery product system.

☐ And, of course, the Company's new and highly visible "Yes" advertising program emphasized that Chevron offers such choices to customers as credit card convenience, discounts for cash purchases of gasoline and self service or full service.

This new "Yes" theme was launched mid-year in more than 50 major gasoline markets across the United States, on radio, television and in print advertisements. It has proven to be one of the most effective ad campaigns the Company has ever developed, and one in which advertising expenditures were not significantly increased.

In studies done by an independent research firm, the commercials had a recognition factor well above the average TV advertisement. In questioning consumers who recognized the commercials at the start of the campaign (about a third of the motorists), researchers—who did not divulge who commissioned the study—discovered that 12 percent had last purchased gasoline at a Chevron station. Six months into the campaign, the percentage had almost doubled.

Although service, brand name, quality and location still play a part in the consumer's choice of service stations, competitive price has today overshadowed these factors. Consequently, there has been a dramatic shift to self-serve operations.

To meet these changes in the gasoline marketplace, the Company has started a major service station reconstruction project. The program, beginning in 1984, will involve modernizing a large number of stations over a period of five to seven years. We intend to construct a modest number of new stations in growth areas and automate additional existing stations. There will be a clear emphasis on self-serve stations.

Heating and diesel fuel sales volumes decreased by 2 percent in 1983. Jet fuel sales were strong and we remain an industry leader in the sale of this product. Asphalt sales increased in 1983 by 13 percent, a greater percentage than any other product. As higher motor fuel tax revenues are used to improve America's roadways over the next several years, we expect a large expansion of the asphalt market.

Marketing

The Company (including its affiliates) sells petroleum products throughout the free world and ranks as one of the largest manufacturers and marketers of paving and industrial asphalts. The Company's principal trademark identifying the petroleum products marketed is "Chevron." Domestic sales of refined petroleum products by the Company during 1983 amounted to 932,000 barrels daily, equivalent to 6.1% of total U.S. consumption. Worldwide sales, including the Company's share of affiliates' sales, were 1,715,000 barrels daily in 1983 or approximately 3.8% of the Free World's total.

In the United States, the Company has service station operations in 39 states and the District of Columbia, and is the leading gasoline marketer in the pacific coast and southeastern states regions. At year-end 1983, the Company had over 12,000 retail outlets selling its branded products throughout the domestic marketing area. The Company's other Western Hemisphere markets include western Canada, Central America and Puerto Rico. Sales in eastern Canada are through a jointly owned affiliate which is a leading marketer in that area.

In western Europe and the United Kingdom the Company markets principally through wholly owned subsidiaries. Elsewhere in the Eastern Hemisphere, marketing operations are conducted through Caltex Petroleum Corporation, a jointly owned affiliate which has sales in some 60 countries.

As part of the proposed sale of the northwest European refining and marketing facilities, mentioned previously, more than half of the Company's retail service stations in Europe will be included in the transfer to Texaco Inc. Not to be sold are the marine and jet fuel outlets as well as retail operations in Italy.

The Company's worldwide petroleum product sales and net crude oil sales (sales, less purchases other than oil acquired under long-term supply arrangements with foreign producing country governments and royalty oil purchased), including the Company's interest in these sales by affiliates, for the past five years were as follows:

	1983	1982	1981	1980	1979
	Daily Average Barrels				
Petroleum Products					
United States	931,687	949,667	1,140,477	1,254,989	1,286,448
Foreign	783,569	911,388	1,068,234	1,145,750	1,208,464
Total Products	1,715,256	1,861,055	2,208,711	2,400,739	2,494,912
Crude Oil (less purchases)	150,370	415,891	857,500	784,727	949,984
Total Products and Crude Oil	1,865,626	2,276,946	3,066,211	3,185,466	3,444,896

Reduced sales of petroleum products reflect the continuing worldwide trend toward greater conservation and more fuel-efficient automobiles and equipment. This reduction in demand has created an even more intensely competitive market.

Beginning in 1984, the Company intends to embark on a program of major service station reconstruction, principally in the United States. This project will involve modernization of existing stations and adding automated/computerized systems to more stations as well as construction of several new high volume stations in growth areas. A period of approximately 5-7 years will be required to complete this program.

	1980	1981	1982	1983
Sales	$24,156,000,000	$28,208,000,000	$26,991,000,000	$25,937,397,000
Earnings	1,651,000,000	1,671,000,000	1,676,000,000	1,547,875,000
Number of Employees	53,400	54,200	51,600	49,700
Return on Average Shareholder's Equity	24.4%	20.8%	18.1%	14.9%
United States Motor Gasoline Sales as a Percentage of ARCO Worldwide Refined Product Sales (by barrels)	41.8%	40.2%	42.3%	46.0%
Percentage of Company Stock Owned by Corporate Officers and Directors	16 100ths of 1%	16 100ths of 1%	13 100ths of 1%	Less than 1%
Number of Pages in Annual Report	60	61	60	59
Number of Pages Devoted to Gasoline Marketing	1 2	1	2	1-1 4

Number of ARCO Gasoline Stations in the United States:

12-31-83	4,100
12-31-82	5,260
12-31-81	7,122
12-31-80	8,200
12-31-79	8,300
12-31-76	N A
12-31-71	N A

Left: During 1983, bold new graphics were added to West Coast stations and will be expanded to East Coast stations in 1984.

Right: Marketing Senior Vice President George Babikian has been a force behind innovations that have kept ARCO ahead of the competition in gasoline marketing.

In spite of processing this high proportion of less expensive, low-quality crude, ARCO Petroleum Products Company's yield of light products, such as gasoline, distillates and jet fuels, approximately equaled the industry average.

Capital expenditures for additions to refining and marketing fixed assets totaled $170 million in 1983 and were directed primarily toward further improvement of asset utilization.

Energy costs comprise the largest single item of refining expense, and a decade-long campaign to improve energy efficiency has resulted in substantial cost savings. When viewed against energy usage in the base year of 1972, the Company has achieved a 27 percent increase in refining energy efficiency. This equates to a $245 million savings in energy costs during 1983. This energy conservation was accomplished with expenditures of $116 million during the past decade.

During 1983, work began on an innovative new project designed to further improve profitability. This involves a cogeneration installation, to be constructed by Applied Energy Services, adjacent to the Company's Houston refinery. The facility will produce up to 135 megawatts of electricity that will be sold to a Texas utility. It will also produce steam for use by the refinery and will be fueled by petroleum coke produced at the refinery. Although ARCO Petroleum Products Company will have no ownership interest in the plant, it will receive the benefit of a stable outlet for its coke production and an option to purchase steam for use in processing operations.

In petroleum marketing, decisive actions taken over the past ten years have produced an operation that is lean, efficient and highly competitive. The Company's marketing efforts are focused on developing high-volume outlets concentrated in high-population areas. A number of innovative programs introduced over the past few years have appealed to cost-conscious consumers and built the Company's volumes substantially in spite of a trend toward declining demand for gasoline.

In 1983, U.S. gasoline demand increased only 1 percent, yet ARCO's total gasoline sales rose 14 percent, exceeding 5.6 billion gallons. Average monthly throughput at the Company's lessee-dealer stations was 134,000 gallons in 1983, compared to a reported industry average of 55,000 gallons per month for stations supplied by other major refiners.

The Company continued to expand the number of am pm mini-market franchises, which combine the sales of convenience food items and gasoline. At year end, there were 765 of these highly successful outlets in operation.

The Company's franchise program for MP&G Tune-Up Centers also continued to expand, with 111 units in operation in Boston and Southern California at year end. In addition, the Company began an image improvement program at its retail outlets to enhance the effectiveness of marketing and advertising programs.

Innovative programs introduced over the past few years have appealed to cost-conscious consumers.

ARCO Petroleum Products Company is studying the possible use of debit cards at its retail outlets to improve dealer efficiency. With this type of card, motorists can activate gasoline pumps by inserting their bank debit card into a reader near the pump island. A debit card is unlike a credit card, since the gasoline purchase amount is instantly deducted from the customer's checking account and deposited into the station's account. During 1983, the Company initiated a test of the debit card program in northern California.

Refining and Marketing

In a difficult and competitive refining and marketing environment, ARCO Petroleum Products Company continued to perform well in 1983, earning $474 million in pretax profits. This was below the record earnings of $809 million in the previous year, primarily because of depressed industry margins and a decline in the pretax profit from inventory reductions compared to 1982.

Crude oil and petroleum product inventory volumes were reduced in 1983 from 1982 levels, adding $140 million to 1983 pretax earnings, compared with $225 million in the previous year.

In refining, the Company gained an early advantage in the 1970s by making investments that are enabling it to process lower quality crude oils and still yield a high level of more valuable light products from each barrel refined. Efforts are continuing to reduce costs, improve productivity and further streamline the Company's highly efficient refinery system.

The Company's crude refining capacity averaged 700,300 barrels per day in 1983. Total refinery blended crude runs averaged 663,600 barrels per day, a 96 percent utilization rate versus the industry average of approximately 72 percent. Capability for processing high-sulfur crude oil remained at the high level of 91 percent during the year, significantly above the industry average.

At the same time, the Company has worked to bring its downstream businesses into balance by tightening the efficiency of its refineries and modifying and trimming its retail market system for lower cost, higher volume operations. As a result, we believe that Atlantic Richfield now has one of the most profitable domestic downstream operations in the industry.

All of which brings us to the present and a restatement of the theme of this report, which is that Atlantic Richfield is a company with a rich array of high-quality assets, opportunities, and people to produce results, not only in the immediate future but in the long term.

The Company markets gasoline and other refined petroleum products to both consumers and resellers. In the United States, gasoline is marketed under the ARCO trademark, directly and through distributors, to approximately 4,400 branded retail outlets. ARCO branded service stations are located primarily in the Northeast, Mid-Atlantic, metropolitan Chicago and the West. Automotive oils are sold to service stations, distributors and commercial consumers. Heating oil, lubricants and natural gas liquids are marketed through distributors and directly to consumers. Heavy fuel oils are sold directly to utilities and other customers, and jet fuels are sold directly to airlines and others. Cargo and bulk sales are also made to commercial and industrial consumers, and certain products are marketed through other channels. Additionally, retail marketing operations are conducted in Brazil but generally do not involve refined petroleum products from the Company's refineries.

As of December 31, 1983, approximately 765 am/pm mini markets, a convenience store franchise of the Company, were in operation. Also at year end, the Company had 111 MP&G Tune-Up Center franchises in operation in the Boston and Los Angeles areas.

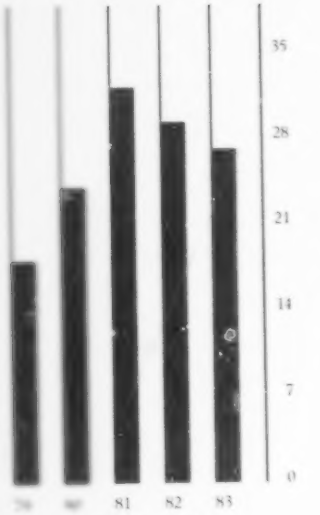
Total refined petroleum product sales of the Company were as follows:

	Years Ended December 31,		
	1983	1982	1981
	(Barrels per day)		
Refined Petroleum Product Sales:			
United States:			
Gasoline	368,800	323,500	292,400
Natural gas liquids	54,900	58,800	58,500
Jet fuels	72,400	68,100	60,600
Distillate fuels	142,900	130,800	120,100
Heavy fuel oils	29,600	39,600	50,600
Asphalt	14,000	14,400	13,200
Lubricants	5,200	4,900	6,800
Other	41,700	33,700	45,200
Total United States	729,500	673,800	647,400
Foreign—all refined petroleum products	71,000	91,100	78,500
Total	800,500	764,900	725,900

	1980	1981	1982	1983
Sales	$11,346,000,000	$14,110,000,000	$15,529,000,000	$12,067,000,000
Earnings	1,811,000,000	1,917,000,000	1,879,000,000	1,512,000,000
Number of Employees	22,958	56,372	19,800	13,984
Return on Average Shareholder's Equity	39.7%	31.0%	28.3%	19.7%
United States Motor Gasoline Sales as a Percentage of SOHIO Worldwide Refined Product Sales (by barrels)	62.8%	65.0%	63.6%	66.1%
Percentage of Company Stock Owned by Corporate Officers and Directors	16 100ths of 1%	N/A	15 100ths of 1%	Less than 1%
Number of Pages in Annual Report	66	56	64	64
Number of Pages Devoted to Gasoline Marketing	1-1/4	1-2/3	1/3	1-1/4

Number of SOHIO Gasoline Stations in the United States:

12-31-83	2,100
12-31-82	2,200
12-31-81	2,300
12-31-80	2,300
12-31-79	2,600
12-31-76	3,300
12-31-71	3,500



Average Market Price Alaskan North Slope Crude Oil
$ per Barrel

Retail Marketing

Facing forecasts that call for decreasing gasoline demand while station expenses continue to rise, the company directed a maximum effort toward increased efficiency of retail marketing operations in 1983. Restructuring by Sohio Oil continued to match outlets and the services they provide to the demands of individual markets. Sohio Oil's use of self-serve outlets in all of its marketing areas continued to grow in 1983, increasing to 72 percent of the company's retail gasoline sales.

Sohio began in 1983 to explore opportunities for applying electronic systems at the service-station level. Electronics at the pump and computers in the station would add to customer convenience, automate accounting and price administration through timely collection of data from individual outlets, and improve control of bad debt, credit card fraud, and working capital.

Tests also began in 1983 to measure the acceptance of car care facilities that are designed to provide extensive maintenance service with extended hours.

The service is based on computerized technology that will help diagnose automotive mechanical problems. Specialized programs will be established to train for these facilities technicians who will be highly skilled in automotive repair. Sohio Oil began testing the concept in the Toledo area in late 1983. Six locations will be open in Toledo in early 1984. The company will add an additional 13 centers to other major Ohio markets by year-end.

Sohio Oil believes that the truck stop market provides a unique opportunity for growth among the various markets involved with supplying transportation fuels and services to the public. During 1983 Sohio Oil acquired a chain of eight truck stop locations, which brought its total to 17, all in the eastern United States market served by the company.

In December 1983 Sohio Oil announced an agreement in principle to acquire Truckstops of America, a subsidiary of Ryder Systems, Inc. If concluded as contemplated, this acquisition will bring the total number of truck stops operated by the company to 40.

In March 1983 Sohio Oil announced its decision to cease operations in New York state. Retail outlets and terminals there have been sold. Adverse tax laws in New York state made it uneconomical for Sohio Oil to continue business there.

▶ Sohio's Trembley Point, New Jersey, docks were rebuilt in 1983. These docks are for oceangoing vessels bringing crude oil to the East Coast.

from 371,000 barrels per day in 1982.

Petroleum Products and Refining

After an essentially break-even first quarter, Sohio Oil's operating income from refining and marketing improved as the year progressed and product margins were restored.

Operating income from refining and marketing, exclusive of a $66 million gain from the liquidation of inventories, was $387 million in 1983 compared with $390 million in 1982. Refined product sales volumes in 1983 increased 9 percent to 405,000 barrels per day

Refining and Marketing

Weak demand for refined products caused a rapid deterioration of prices and margins in the first quarter of 1983. After what was essentially a break-even first quarter, Sohio's refining and marketing business recovered well. It essentially equaled 1982 results excluding the inventory liquidation gain. Sohio's refining and marketing operations results continue to be superior to most of its competitors. Efforts to find profitable additions to this business that permit the company to build upon the advantages it enjoys will be actively pursued in the years ahead.

Marketing

Sohio is, and for many years has been, the leading marketer of gasoline and other refined petroleum products in Ohio, under the trade name "Sohio". Sohio also markets such products under the trade name "Boron", principally in central and western Pennsylvania, and to a limited extent in areas of Michigan, Kentucky, West Virginia and Indiana adjacent to Ohio. In addition, Sohio markets refined petroleum products under the trade names "BP", "Gibbs", "Scot" and "Wm. Penn" through retail outlets in eastern markets north of North Carolina. The trade name "Gas & Go" is used in connection with retail outlets in southeastern Michigan.

Throughout its marketing area, Sohio supplies directly (other than through jobbers) a total of approximately 2,100 retail outlets. More than half of these outlets are operated by employees of Sohio, the others through independent dealers. Sohio markets automotive petroleum products through full service, limited service and self-service facilities. It also operates gasoline and car wash facilities and specialized car care facilities and has convenience stores at certain of its facilities. Sohio also supplies refined petroleum products to industrial, commercial, governmental and agricultural accounts.

Sohio owns and operates 17 truck stop facilities in the eastern United States, having acquired eight facilities in 1983. In late 1983, the Company announced an agreement in principle to acquire Truckstops Corporation of America, a subsidiary of Ryder Systems, Inc., which, if consummated, would increase to 40 the number of truck stops operated by the Company.

The principal petroleum products manufactured and marketed by Sohio are gasoline, motor oils, lubricants, diesel fuel, jet fuel, heating oils, kerosene, industrial oils, residual fuel and coke. The Company also markets tires, batteries and automotive accessories through many of the retail outlets it supplies.

	1980	1981	1982	1983
Sales	$13,411,000,000	$15,475,000,000	$16,038,000,000	$15,325,000,000
Earnings	725,000,000	1,076,000,000	537,000,000	453,000,000
Number of Employees	48,086	45,062	41,438	37,804
Return on Average Shareholder's Equity	16.8%	21.3%	10.5%	8.7%
United States Motor Gasoline Sales as a Percentage of Sun Worldwide Refined Product Sales (by barrels)	46.8%	46.9%	46.7%	44.9%
Percentage of Company Stock Owned by Corporate Officers and Directors	6.05%	5.08%	3.5%	3.6%
Number of Pages in Annual Report	60	65	36	60
Number of Pages Devoted to Gasoline Marketing	2	2	1-1/2	1-1/2

Number of Sun Gasoline Stations in the United States:

12-31-83	6,700
12-31-82	8,100
12-31-81	8,400
12-31-80	9,000
12-31-79	N/A
12-31-76	13,200
12-31-71	N/A

Refining and Marketing

	1983	1982
	(Dollars in millions)	
Operating income	$ 60	$ 59
Cash provided from operations	$ 437	$ 444
Capital expenditures	$ 120	$ 117
Capital employed at year end	$1,206	$1,477
Return on average capital employed	4.5%	3.1%

For Sun Refining and Marketing Company, two major developments during 1983 were the reinforcement of its business strategy, calling for streamlining the present four-refinery system, and the steps the company took to make its Sunoco Marketing group more successful in an extremely competitive market.

Among the actions taken in 1983 aimed at enabling the company to better compete in the marketplace was the decision to close three lube oil manufacturing facilities at Sun's Marcus Hook, Pa., refinery, and to divest its European lube oil marketing operations. Sun will continue to be a major manufacturer and marketer of solvent lube oils produced at the Tulsa, Okla., and Yabucoa, Puerto Rico, refineries.

Sun sold two of its convenience store chains — Fast Fare, Inc. and Zippy Mart, Inc. — in 1983 because their operations no longer fit the strategic plan of the Sunoco Marketing group. However, Sun will expand its remaining convenience store chain, Stop-N-Go Foods, Inc., in its prime marketing area.

The Sunoco Marketing group began testing a new credit card-activated gasoline payment machine in the Philadelphia area. The FAST machine operates like a bank card machine for Sunoco credit card customers, reviewing the status of the credit account, authorizing the purchase, activating the pump and recording required purchase information.

Early in 1984, Sun announced that it would withdraw from branded marketing in Florida and Virginia, except the Washington, D.C., metropolitan area. The decision was based on low market share and high cost of distribution.

Marketing

Sun primarily markets gasoline, distillates, jet fuel, residual fuel oil, lubricants and petrochemicals. The volume of these products sold domestically during 1983 and 1982 was approximately 429,000 barrels daily. Volumes of these products sold by Suncor in Canada decreased from approximately 70,000 barrels daily in 1982 to approximately 67,000 barrels daily in 1983. Refined product sales data for the five-year period ended December 31, 1983 are set forth in the table on page 53 in the Company's 1983 Annual Report to Shareholders.

Gasoline, distillates, jet fuel and residual fuel oil are sold to wholesale, commercial, industrial and retail customers. Retail sales of gasoline primarily under the "Sunoco" and "DX" brands are made largely through service station outlets operated by independent dealers and jobbers in a 26 state marketing area in the eastern one-half of the United States and in Ontario and Quebec, Canada. As of December 31, 1983, Sun had approximately 6,700 domestic and 860 Canadian service station outlets. In addition, Sun operates some 220 domestic convenience store outlets of which 120 also retail gasoline.

Throughout 1983, Sun has been following a program of upgrading and modernizing its domestic retail facilities. This program contributed to an increase in gasoline volume per retail outlet. Additionally, during 1983 Sun continued to divest domestic service stations and convenience stores that were unprofitable or did not fit Sun's long-range plans. Sun intends to concentrate on high volume service stations in geographically concentrated areas in which Sun has a marketing and/or logistical advantage.

[redacted]

	1980	1981	1982	1983
Sales	$10,472,500,000	$11,296,200,000	$10,899,100,000	$10,690,500,000
Earnings	647,000,000	791,400,000	804,000,000	625,900,000
Number of Employees	17,995	19,399	20,035	20,304
Return on Average Shareholder's Equity	20.1%	20.8%	18.2%	12.6%
United States Motor Gasoline Sales as a Percentage of Unions Total Refined Product Sales (by barrels)	60.0%	59.6%	58.2%	58.9%
Percentage of Company Stock Owned by Corporate Officers and Directors	63 100ths of 1%	64 100ths of 1%	59 100ths of 1%	59 100ths of 1%
Number of Pages in Annual Report	10	11	12	11
Number of Pages Devoted to Gasoline Marketing	1 4	3 4	1	1 2

Number of Union Gasoline Stations in the United States:

12-31-83	11,200
12-31-82	12,700
12-31-81	12,500
12-31-80	12,300
12-31-79	N A
12-31-76	N A
12-31-71	N A

In marketing, despite ample crude supplies and declining overall product demand, Union increased sales of petroleum products to 386,000 barrels per day, up six percent from 364,200 barrels per day in 1982.

Union's Auto/Truckstop system, the nation's largest, achieved new records for gallonage in 1983. Motor fuel sales at Auto/Truckstops were 30 percent above the prior record level set in 1979.

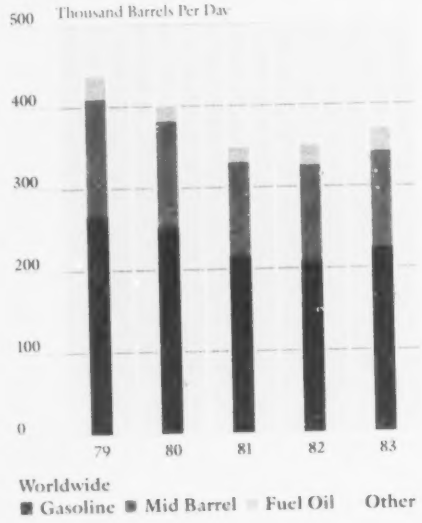
In the eastern U.S., three-fourths of the company's product sales are through jobbers, and these jobbers added nearly 500 Union-branded service stations in 1983.

In the West, Union built on its successful programs offering unique gasoline grades, a combination of full and self serve stations and the 76 PROTECH guaranteed automotive repair service. This strategy earned Union an increase in market share in California, the nation's largest gasoline market. Union is the only major West Coast supplier of leaded premium, which accounts for 30 percent of our retail gasoline sales in the West.

In November, the company added the 76 PROTECH auto repair program to the greater Los Angeles area, making the program available to motorists along the entire West Coast. More than 400 Union dealers now participate.

On a nationwide basis we added 400,000 new credit card accounts during the year, bringing the total number to 4.4 million, a 10 percent increase over 1982.

Petroleum Product Sales



Domestic Petroleum Marketing

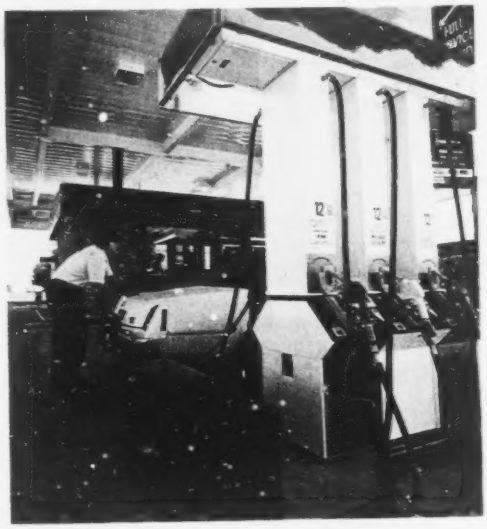
Union's products are distributed in 46 states under the "Union 76" trade name. Marketing was conducted through nearly 800 wholesale marketing and bulk distributing stations and approximately 11,200 service stations and other retail outlets at the end of 1983 including about 360 truckstops, many of which have both truck and passenger car service. Substantially all service stations and other retail outlets, including units owned and leased by the Company, are operated by independent dealers. The wholesale marketing stations distribute products to the Company's retail outlets, sell to others for resale and sell directly to consumers. Through retail outlets, the Company also sells branded tires, batteries and other automobile accessories. Premium motor oils and greases are also marketed through wholesale distributors and to independent marketers throughout the U.S. and in many foreign countries.

PHILLIPS PETROLEUM COMPANY
Years Ended December 31

	1980	1981	1982	1983
Sales	$13,712,900,000	$16,288,000,000	$15,892,000,000	$15,411,000,000
Earnings	1,070,000,000	879,000,000	646,000,000	721,000,000
Number of Employees	32,400	34,500	29,600	28,400
Return on Average Shareholder's Equity	23.8%	16.9%	11.1%	12.1%
United States Motor Gasoline Sales as a Percentage of Phillips Total Refined Product Sales (by barrels)	12.0%	11.7%	12.1%	12.0%
Percentage of Company Stock Owned by Corporate Officers and Directors	7.8%	8.3%	8.2%	8.6%
Number of Pages in Annual Report	76	77	72	71
Number of Pages Devoted to Gasoline Marketing	1-2	1-3	2-3	1 page plus cover

Number of Phillips Gasoline Stations in the United States:

12-31-83	12,000
12-31-82	13,900
12-31-81	13,900
12-31-80	12,805
12-31-79	13,500
12-31-76	17,700
12-31-71	N/A



A station attendant fills an automobile with gasoline in the full service section of this Phillips station. At right, a customer inserts his credit card into a card reader for service and billing without assistance.

maintain higher standards in such areas as station appearance, cleanliness and customer service.

To encourage renovations of jobber-owned stations, the company redesigned and rebuilt several company-owned service stations during the year and announced plans for similar renovations in 1984. New station concepts and convenience store manuals are also being developed for jobbers.

During the year, the company initiated a major credit card solicitation program to attract new accounts and removed a 3 percent processing fee on credit card invoices submitted to the company by jobbers. Phillips also reduced the fee charged on bank credit card sales.

Also as part of its new marketing program, the company is intensifying its national advertising program to focus more directly on selling Phillips 66 gasoline, motor oil, tires and batteries.

A special dome helps conserve vapors inside this gasoline tank at the company's East St. Louis, Ill., terminal. The dome also serves as an environmental safeguard and is an example of many conservation and environmental facilities in place throughout the company's operations.

Combined runs of crude oil and natural gas liquids processed in company refineries were down slightly in 1983, primarily as a result of closing the Kansas City refinery. However, most of the decline was offset by increased processing in the company's remaining refineries and natural gas liquids processing facilities.

Transportation

Two Phillips tankers were modified to serve as shuttle tankers to move oil to markets from the Maureen field in the

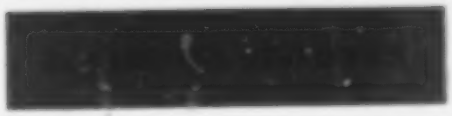
About the Cover

During the year, the company began a program to enhance the Phillips 66 brand. Part of the program includes building model stations like this one, where new marketing concepts can be tested. The marketing concepts utilized in these stations are expected to be adopted by the company's jobbers — the independent business people who market most of Phillips petroleum products. In this station, customers find a wide variety of facilities, including a convenience store, service bay, car wash, digital pumps and a computer system for customer billing and service without the assistance of a station attendant.

Marketing

In the United States, the company markets refined petroleum products under the Phillips 66 trademark with its highest market concentration in the Midwest. Gasoline and other refined products as well as tires, batteries and automotive accessories manufactured by others, are distributed in the United States through approximately 12,000 service stations, bulk distributing plants and marinas. Of these, Phillips owns or leases approximately 700 service stations and bulk plants--the majority of which are leased. In 1982 distribution was made through approximately 13,900 service stations, bulk distributing plants and marinas. Phillips is one of the leading suppliers of aviation gasoline and turbine fuel to the private sector of the market.

Petroleum product sales in the United States during 1983 averaged 452,000 barrels a day, compared with 461,000 barrels a day in 1982.



There are no reliable figures on the oil business. We've looked at a lot of them and we've talked to people who compute, tabulate, massage, guess, and *borrow* numbers. No set of numbers appears completely reliable or really agrees with numbers published by other sources. The business is so big and complicated that no one keeps figures the same way. We offer the following rule: Don't believe any statistic unless you make it up yourself.

The figures on the following pages should be sufficient to show the direction of the tide in the gasoline business. Some of the statistics come from the government. We've compiled others from the annual reports of major oil companies. Most oil company figures are fairly comparable since the companies use the same coterie of accounting firms.

UNITED STATES GASOLINE PRODUCT SALES AND SHARE OF MARKET

Ranked as reported in the Annual Report

Company	Thousands of Barrels per day	Gallons Sold per day (Thousands)	Gallons Sold per year (Millions)	% Market Share in 100 Billion Gallon Market	% Market Share by Lundberg Survey	Annual Report Variance from Lundberg Survey
1 Exxon	505	21,210,000	7,741,650	7.74	6.90	+.84
2 Amoco	469	19,698,000	7,189,770	7.18	7.23	-.05
3 Shell	465	19,530,000	7,128,450	7.12	6.97	+.15
4 Texaco	421	17,682,000	6,453,930	6.45	5.80	+.65
5 Mobil	386	16,212,000	5,917,380	5.91	5.69	+.22
6 Gulf	379	15,918,000	5,810,070	5.81	5.30	+.51
7 Chevron	370	15,540,000	5,672,100	5.67	5.06	+.61
8 ARCO	369	15,498,000	5,656,770	5.65	4.82	+.83
9 SOHIO	267	11,214,000	4,093,110	4.09	N.A.	N.A.
10 Sun	263	11,046,000	4,031,790	4.03	2.54	+1.49
11 Unocal	227	9,534,000	3,479,910	3.47	3.52	-.05
12 Phillips	212	8,904,000	3,249,960	3.24	2.61	+.63
Total for Schedule	4,333	181,986,000	66,424,890	66.36%	56.44%	+5.83

U.S. Petroleum Developments: 1983

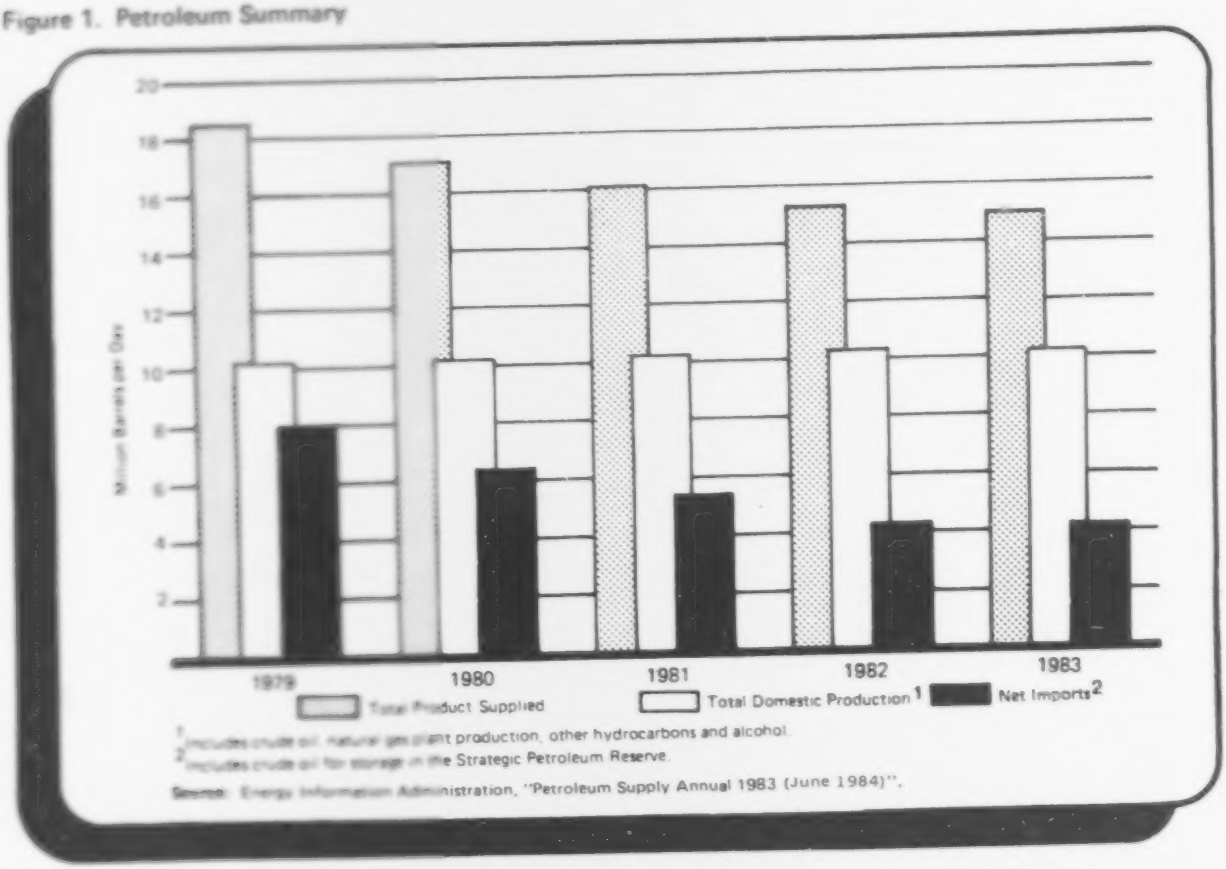
Petroleum developments in 1983 continued to be characterized by declines in many areas, with modest upturns in others:

- Total 1983 petroleum consumption was below the 1982 level despite an upturn in consumption in the second half of 1983.
- Refinery capacity continued to decline, which in turn was reflected in higher utilization rates.
- Net imports of crude oil continued to fall.
- Crude oil acquisition costs and refined product retail prices fell.
- The number of rotary rigs in operation reversed its steep downward trend.
- Motor gasoline consumption increased slightly, reversing last year's decline.

Petroleum Consumption

During 1983, petroleum consumption in the United States (measured as products supplied for domestic use) declined for the fifth consecutive year despite an upturn in this series in the second half of 1983. (see Figure 1). Consumption averaged 15.2 million barrels per day, nearly 1 percent below consumption in 1982 and 19 percent less than in 1978, the peak demand year. During the second half of 1983, however, petroleum consumption averaged 15.5 million barrels per day compared with 14.9 million barrels per day in the first half of the year. Continued price decreases, as well as a strengthening of the economy starting in the third quarter of 1983, contributed to the modest upturn in consumption in the second half of the year.

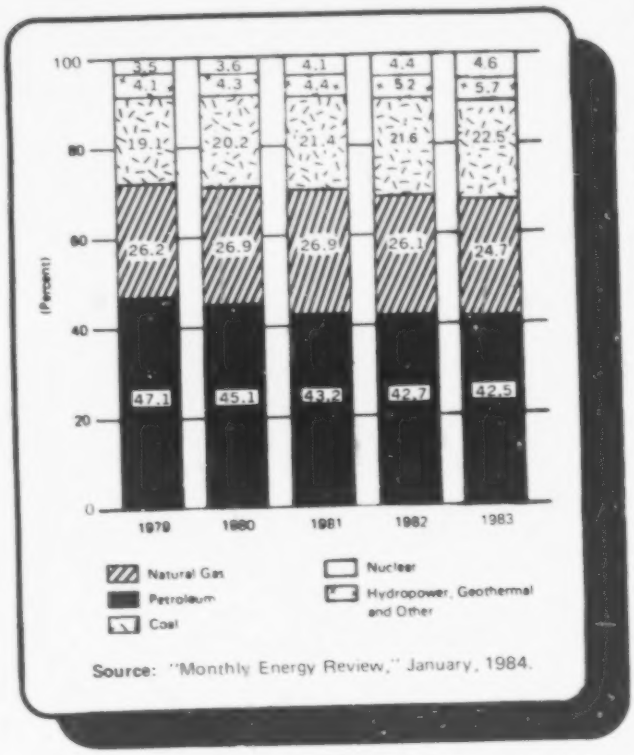
Figure 1. Petroleum Summary



[1] Includes crude oil, natural gas plant production, other hydrocarbons and alcohol.
[2] Includes crude oil for storage in the Strategic Petroleum Reserve.

Source: Energy Information Administration, "Petroleum Supply Annual 1983 (June 1984)".

Figure 2. Consumption of Energy by Type



Source: "Monthly Energy Review," January, 1984.

Despite overall declines in consumption, petroleum remained the principal source of energy in the United States. About 43 percent of total U.S. energy consumption was accounted for by petroleum, nearly the same as in 1982 (see Figure 2). Petroleum's share of the energy market has declined, however, since 1978 when it reached a peak of 49 percent. This continued decline is the result of conservation efforts and fuel switching that stemmed from the rapid escalation of petroleum prices during the 1970's.

Finished motor gasoline supplied for domestic use increased slightly during 1983, averaging 6.6 million barrels per day compared with 6.5 million barrels per day in 1982 (see page 10). Consumption showed substantial gains beginning in June, averaging 6.8 million barrels for the period June through December. Despite seasonal variations and the effects of higher gasoline taxes, gasoline prices continued to subside in 1983 from their 1981 highs. While lower prices were evident in both 1982 and 1983, consumption did not begin to increase until 1983 when the economy began to improve.

Distillate fuel oil consumption, which averaged 2.7 million barrels per day in 1983, showed almost no change over the 1982 average (see page 12). However, consumption during the second half of 1983 was about 10.2 percent higher than in the second half of 1982. The increase was associated with a very cold winter, which caused large increases in heating oil consumption.

Consumption of residual fuel oil continued the steady decline that started in 1978 when consumption averaged 3.0 million barrels per day. In 1983, residual fuel oil consumption averaged 1.4 million barrels per day, about 17 percent below the 1982 average (see page 14). Consumption remained considerably below historical levels, despite signs of economic recovery in the second half of 1983. Fuel switching by electric utilities, the largest consumers of residual fuel oil, contributed to the decline in residual fuel oil consumption. Although the cost of generating electricity for utilities burning residual fuel oil declined in 1982 and 1983, it was still significantly higher than the cost of burning coal and natural gas.[1]

Refinery Operations

The daily average total operable crude oil distillation capacity[2] of petroleum refineries in the United States decreased by about 700 thousand barrels during 1983. This was the result of refinery closures and partial shutdowns as refiners continued to eliminate excess capacity and uneconomic facilities. Many refiners also upgraded their downstream facilities in order to improve their ability to produce lighter products such as gasoline. Refinery utilization rates, which were persistently low through 1981 and 1982, increased throughout most of 1983. During September 1983, refiners operated at over 78 percent capacity, the highest level of utilization observed since February 1980. This was the result of increased inputs and significant refinery closings reported for that month. Crude oil inputs to refineries averaged 11.7 million barrels per day during the year, less than 1 percent below the 1982 average (See page 7).

Petroleum Stocks

Total petroleum stocks, excluding the Strategic Petroleum Reserve (SPR), decreased by about 93 million barrels during 1983, compared to the 1982 decline of 117 million barrels. About 85 million barrels of the 1983 decrease was in inventories of refined products. Total crude oil stocks (excluding SPR) declined from 351 million barrels at the end of 1982, to 344 million barrels at the end of 1983 (see page 7). Crude oil stocks held in the Strategic Petroleum Reserve exceeded privately held crude oil stocks for the first time in the 7 years of SPR's existence (See insert, page xi).

[1]Energy Information Administration, *Electric Power Monthly*, DOE/EIA-0226(84/01) (Washington, D.C.: April, 1984), p. 33.

[2]See Glossary, this issue, p. 140.

At the end of 1983, stock levels of most major products were below the levels at the end of 1982. Distillate fuel oil inventories at 140 million barrels, were 24 percent below the level at the end of 1982; residual fuel oil inventories, at 49 million barrels, were 29 percent below the level at the end of 1982; motor gasoline inventories at 222 million barrels, were about 9 percent below the level at the end of 1982 (see pages 10-15). Although stocks have continued to decrease, supplies of petroleum products were adequate to meet demand given excess refining capacity, secure crude oil supplies and the availability of product imports.

The continued decline in the stock levels reflects structural changes in the petroleum industry. These changes have been in response to declining demand levels and product prices, increased raw material and operating costs, and other factors which have caused an increase in the cost of storing products.

As a result of industry changes in inventory management, the National Petroleum Council (NPC), at the request of the Secretary of Energy, conducted a study and developed new estimates for Minimum Operating Inventory (MOI) levels for crude oil and major fuel products. The MOI is defined as the inventory level below

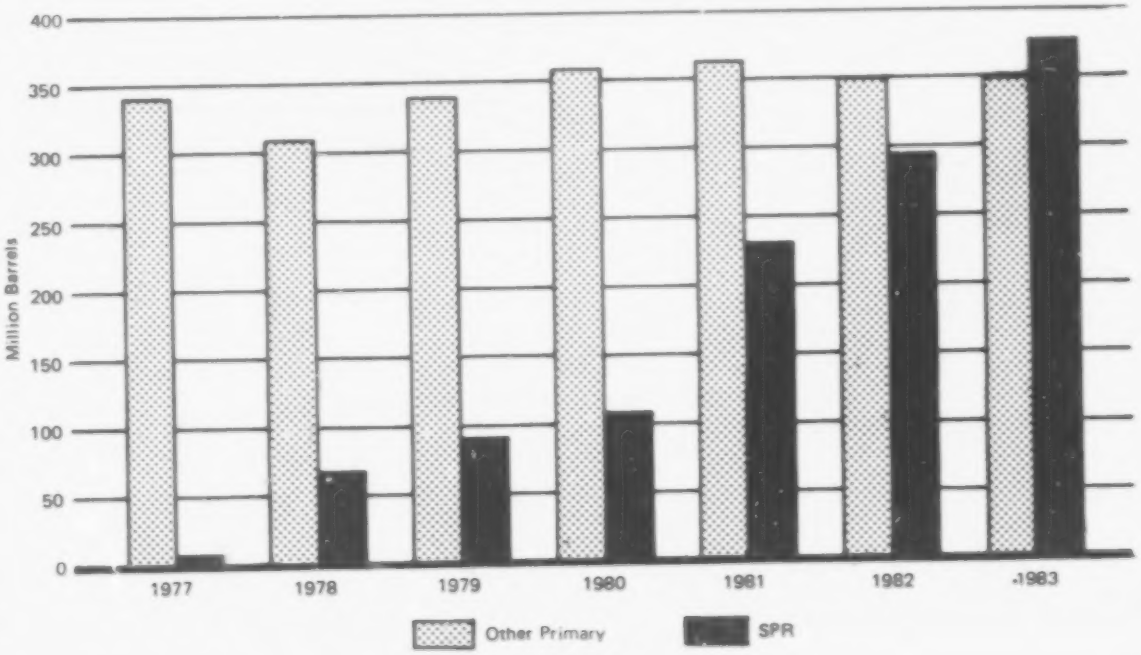
Strategic Petroleum Reserve

Two milestones occurred in the Strategic Petroleum Reserve (SPR) during the last half of 1983. In July, SPR crude oil ending stocks reached 341 million barrels, exceeding privately owned crude oil stocks for the first time in the 7 years of SPR's existence. The second event occurred in December when the SPR stocks reached 379 million barrels, exceeding the halfway mark of the 750 million barrel goal.

In response to the Arab oil embargo during 1973–1974, Congress passed the Energy Policy and Conservation Act (P.L. 94–163). Included in this legislation was the creation of the Strategic Petroleum Reserve program. With this Act, Congress required a reserve of up to one billion barrels of crude oil and/or petroleum products to be set aside to reduce the impact of any supply disruptions caused by international discords. The reserves can be withdrawn only after the President has determined such an action is necessary.

Currently the drawdown and distribution capability for the SPR is 1.7 million barrels per day. The plans call for an ultimate drawdown and distribution capability of up to 3.5 million barrels per day.

Year–End Stocks of Crude Oil in the United States



Source: Energy Information Administration, "Petroleum Supply Annual 1983 (June 1984)"

which operating problems and shortages would begin to appear in a defined distribution system. The NPC revised the estimated MOI level for crude oil downward, from 290 million barrels to 285 million barrels. The motor gasoline MOI was also revised downward from 210 million barrels to 200 million barrels. The MOI for distillate fuel oil was reduced from 125 million barrels to 105 million barrels. The residual fuel oil MOI was lowered from 60 million barrels to 40 million barrels. A detailed discussion of the NPC study and changes to the MOI's is provided in the feature article of the December 1983 (1) issue of the *Petroleum Supply Monthly*.

Imports

The import picture in 1983 was mixed, with crude oil imports continuing to decline, while imports of refined products increased. Net imports of crude oil and petroleum products (gross imports minus exports) averaged 4.3 million barrels per day in 1983, about the same as in 1982. During 1982, net imports averaged 20 percent below the 1981 level. Although total imports show little change in 1983, the U.S. continued to reduce dependence by shifting the import mix away from Organization of Petroleum Exporting Countries (OPEC). In 1983, 37 percent of U.S. petroleum imports came from OPEC nations, down from 67 percent in 1979 (see insert page xii).

Net crude oil imports declined for the fourth straight year, averaging 3.2 million barrels per day, 3 percent below the 1982 average. Net imports of petroleum products averaged 1.1 million barrels per day in 1983, up 10 percent from the 1982 level. Although imports of motor gasoline and distillate fuel oil increased significantly, this was partially offset by a decrease in residual fuel oil imports. Residual fuel oil net imports decreased from 567,000 barrels per day in 1982 to 514,000 barrels per day in 1983. Motor gasoline net imports increased by 34 percent, from 177,000 barrels per day to 237,000 barrels per day, and net imports of distillate fuel oil increased over fivefold, from 20,000 barrels per day to 110,000 barrels per day. (see pages 10-15).

Exports

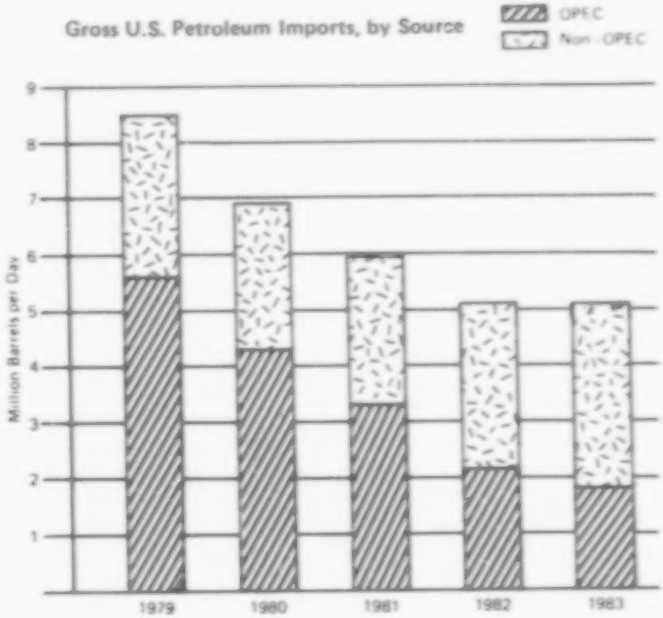
Petroleum product exports during 1983 averaged 575,000 barrels per day, representing a slight decline from the 1982 level of 579,000 barrels per day. During the second half of 1983 product exports exhibited a substantial downturn, averaging approximately 180,000 barrels per day below the first half of 1983.

Production

Domestic production of crude oil during 1983 was at its highest level since 1978, averaging 8.7 million barrels

U.S. Dependence on Petroleum Imports Declines

U.S. imports of petroleum have declined steadily since 1979, reducing U.S. dependence on foreign crude oil and petroleum products. At the same time, there has been a dramatic shift in the sources of U.S. petroleum imports away from members of the Organization of Petroleum Exporting Countries (OPEC) countries. In 1983, 37 percent of U.S. petroleum imports were from OPEC sources, compared with 42 percent in 1982, 55 percent in 1981, 62 percent in 1980, and 67 percent in 1979.



Source: Energy Information Administration "Petroleum Supply Annual, 1983," June, 1984.

per day compared with 8.6 million barrels in 1982. Natural gas plant liquids production averaged 1.6 million barrels per day in 1983, about the same as in 1982.

Drilling activity in the United States during 1983 reversed the steep downward trend that began in the early months of 1982. The average number of rigs operating in December 1983 was 2,780 compared with 2,696 in December 1982.[3] Well completions in the United States were down in 1983, however. The total number of wells completed during 1983 decreased 11 percent, from 85,795 in 1982 to 76,329 in 1983.[4]

Prices

Petroleum prices fell during 1983, for the second straight year, reflecting price decreases for both domestic and imported crude oil. The refiner acquisition cost of domestic crude oil averaged $28.87 per barrel during 1983, compared with $31.22 per barrel a year earlier. The refiner acquisition cost of imported crude oil also decreased averaging $29.30 per barrel in 1983, compared to $33.55 per barrel in 1982.[5]

The average retail price of motor gasoline was below 1982 levels throughout most of 1983. In December, motor gasoline prices averaged $1.22 per gallon, 2 percent below the December average in 1982 and 10 percent lower than the average in December 1981.[6] Retail prices of residential heating oil followed a similar pattern in 1983, dropping from a high of $1.15 per gallon in January to $1.07 per gallon in December.[7]

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[3]Average of weekly data reported for the period by Hughes Tool Company, *Rotary Rigs Running-By State*, (Houston, Texas: November 1982-December 1983).

[4]American Petroleum Institute, *Report on Drilling Activity in the United States*, (Washington, D.C.: January 1982-October 1983)

[5]Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (84/01)(Washington, D.C.: April 1984) p. 84.

[6]Op. cit., p. 88.

[7]Energy Information Administration, *Petroleum Marketing Monthly*, DOE/EIA-0380 (84/02)(Washington, D.C.: May 1984) p. 54.

U.S. Refining Capacity: 1984

Introduction

*This chapter presents the results of the Energy Information Administration's 1983 annual refinery survey (Form EIA-820, "**Annual Refinery Report**"). Statistics reflect capacities as of January 1, 1984, and operations during 1983. Projections are based on the expectations of survey respondents and may not be consistent with the forecasts of the Energy Information Administration.*

Number of Operable Refineries

There were 247 operable petroleum refineries in the United States[1] on January 1, 1984, reporting a combined operable crude distillation capacity of 16.1 million barrels per calendar day, and 17.1 million barrels per stream day[2], a decrease of approximately 0.7 million barrels per calendar day and 0.8 million barrels per stream day capacity when compared with the January 1, 1983 level.

There was a net decrease of 11 refineries during 1983, the result of 18 closings and 7 reactivations, accounting for a net decrease in crude distillation capacity of 0.6 million barrels per calendar day as refiners continue to eliminate uneconomic facilities and move toward consolidating and streamlining refining operations. This is the lowest number of refineries reported since data collection on U.S. refining capacity was initiated in 1918 by the Bureau of Mines, and 385 refineries fewer than the all time high in 1936. The net reduction during 1983 in the number of operable refineries occurred predominantly in the "30,000 or less" barrels per calendar day size category which showed a net reduction of 8 refineries. This same category has dropped by 67 refineries since 1980, while refineries in size ranges "larger than 30,000" barrels per calendar day only had a net reduction of 5 in the number of refineries (see Table 1).

Crude Distillation Capacity

Of the 16.1 million barrels per calendar day of operable crude distillation capacity, 1.3 million barrels per calendar day was idle. Most of this idle capacity (0.8 million barrels per calendar day) was at facilities that were partially in operation. The remainder (0.5 million barrels per calendar day) was at 33 refineries that were totally idle, but capable of being restarted within 30 days, or under active repairs that could be completed within 90 days.

Refinery utilization rates, which remained low through 1981 and 1982, increased during most of 1983, reaching a high of 78.1 percent in September 1983. Respondents to the Energy Information Administration's annual refinery survey project that their crude distillation capacity will increase to 17.2 million barrels per stream day by January 1, 1985, a net increase of 0.1 million barrels per stream day above the January 1, 1984 level.

Downstream Capacity

In response to the shift in demand toward lighter products and to increase processing flexibility, refiners increased downstream charge capacity by January 1, 1984, to 28.7 million barrels per stream day, a net increase of about 0.7 million barrels per stream day during 1983. The relationship between downstream units and product output is shown in Figure 1. The most significant increases were in catalytic hydrotreating and thermal operations, accounting for approximately 0.7 and 0.1 million barrels per stream day, respectively.

Refiners' projections for 1985 show a shift in the relative importance among the different refining processes. This shift is most evident in vacuum distillation, a process to refine crude oil and residual oils by reducing pressure in the reactor below atmospheric pressure. This process allows lower boiling temperatures which prevents uncontrolled cracking or decomposition of

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[1]The 50 United States and District of Columbia excluding U.S. territories and possessions.

[2]See definitions for explanation of "calendar day" and "stream day".

Table 1. Number of Operable Refineries by Size from January 1, 1980 to 1984

Crude Distillation Capacity Barrels per Calendar Day	Years				
	1984	1983	1982	1981	1980
Less than 10,000	63	67	82	91	102
10,001 - 30,000	55	59	80	93	83
30,001 - 50,000	41	40	44	42	39
50,001 - 100,000	41	44	43	44	44
100,001 - 175,000	26	26	30	27	25
Over 175,000	21	22	22	27	26
Total	**247**	**258**	**301**	**324**	**319**

Source: Form EIA-820.

the charge stock. Vacuum distillation accounts for nearly 25 percent of total downstream charge capacity and is projected to increase by 0.08 million barrels per stream day during 1984. Catalytic cracking and thermal operations, refining processes associated with the breakdown and rearrangement of hydrocarbon molecules to increase the yield of motor gasoline blending components from crude oil, accounted for approximately 20 percent and 6 percent of total downstream charge capacity, respectively. These processes are expected to increase by about 0.07 and 0.04 million barrels per stream day, respectively during 1984. Catalytic hydrocracking which increases the yield of gasoline blending components and catalytic hydrotreating, which upgrades the quality of petroleum products, account for approximately 35 percent of total downstream capacity. These processes are expected to increase by about 0.07 and 0.05 million barrels per stream day, respectively during 1984.

Refinery Receipts of Crude Oil

During 1983, total U.S. refinery receipts of crude oil averaged 11.7 million barrels per day, of which 8.6 million barrels per day were domestic and 3.2 million barrels per day were foreign, continuing a downward trend that started in 1979 (see Figure 2). Although domestic crude oil refinery receipts have remained fairly constant in recent years, a shift in supply source took place, as an increase in Alaskan receipts offset the decline in receipts from the Lower 48 States. Since the start-up of the Trans-Alaskan Pipeline in 1977, refinery receipts of Alaskan crude oil have risen from 0.4 million barrels per day to 1.5 million barrels per day, or from approximately 4 percent to 17 percent of total domestic refinery receipts in 1983. Refinery receipts of foreign crude oil peaked in 1979 at 6.4 million barrels per day and have averaged 3.2 million barrels per day during 1983. These trends reflect both the drop in domestic demand for petroleum products and the reduction of U.S. dependence on foreign crude oil imports.

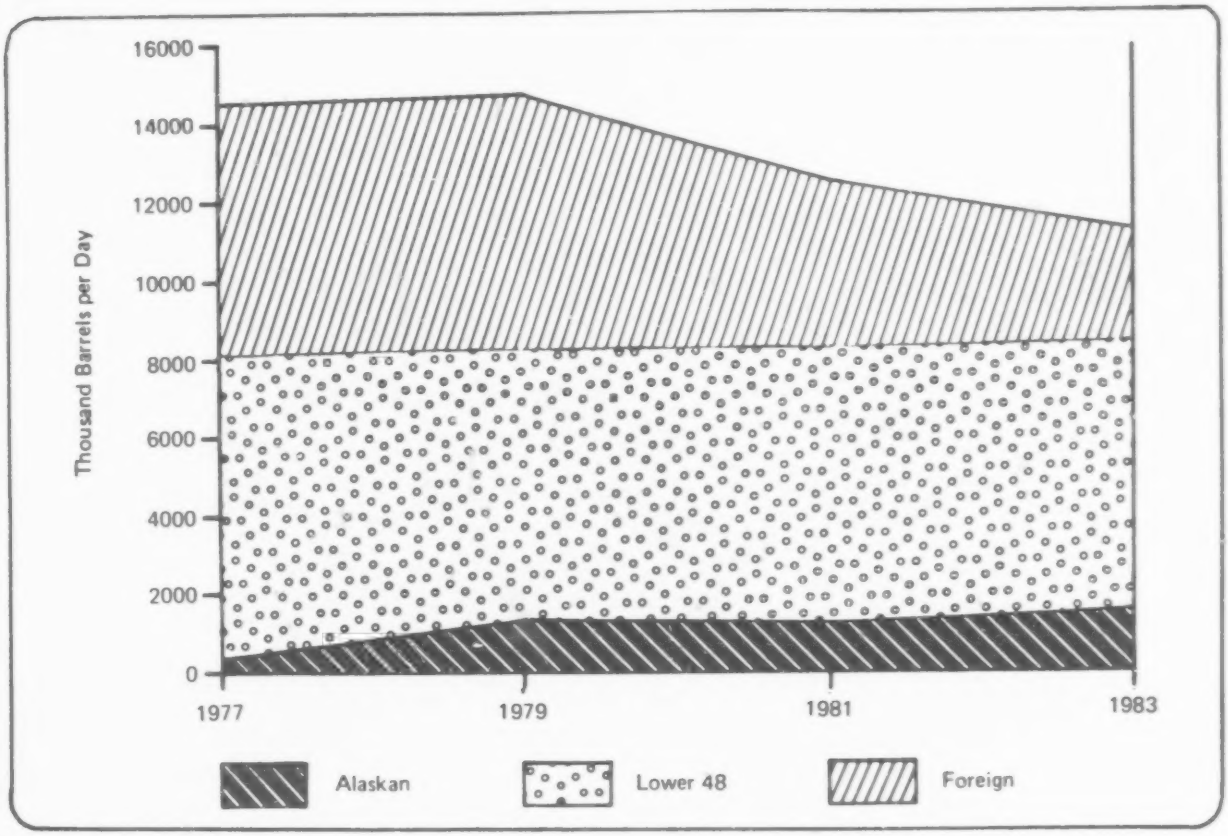
Storage Capacity

Shell and working storage capacity at refineries and blending plants on January 1, 1984, totaled 905 million barrels and 791 million barrels, respectively, a net decrease of approximately 1.5 percent in both working and shell capacity below the January 1, 1983 level.

Several factors contributed to the reduction in refinery storage capacity:

- reduced levels of crude oil and product demand

Figure 2. U.S. Refinery Receipts of Crude Oil



Source: Form EIA-810

PROFIT OR LOSS FROM UNITED STATES REFINING AND MARKETING OPERATIONS AS REPORTED BY THE COMPANIES IN MILLIONS OF DOLLARS

This schedule shows the profit or loss from refining, marketing, and transportation activities in the United States (except where otherwise noted). The yearly figures were taken from the Quarterly Reports. This is an important schedule. It will be updated in the next year's report. Changes in refining and marketing conditions will be more apparent from these figures than from the total profit and loss figures of the companies.

Company	1982 Year	1983 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1983 Year	1984 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1984 Year
1 Exxon	457	—	130	171	160	461	61	58	20		
2 Amoco	113	(56)	50	152	70	216	NA	NA	NA		
3 Shell	344	(40)	87	110	81	238	34	82	43		
4 Texaco*	(56)	34	(85)	(55)	76	(30)	(37)	(96)	(87)		
5 Mobil	139	(9)	28	107	25	151	(17)	(3)	26		
6 Gulf	379	(96)	18	69	122	113	NA	NA	NA		
7 Chevron	186	(57)	32	96	27	98	(47)	(5)	(41)		
8 ARCO	809	27	118	162	167	474	68	107	35		
9 SOHIO	390	(2)	127	152	176	453	64	54			
10 Sun	50	(32)	15	35	19	37	13	NA			
11 Union**	161	NA	NA	NA	NA	123	NA	NA	NA		
12 Phillips	55	(15)	15	NA	NA	73	28	15	(3)		
Total United States Refining and Marketing Profits	3,027			25	48	2,407					

*Worldwide - Texaco

**Unocal does not break out refinery and marketing results by quarters.

PERCENT OF REFINING CAPACITY UTILIZED IN THE UNITED STATES BY THE 12 COMPANIES THAT PRODUCE 66% OF THE GASOLINE REFINED

Company	1980	1981	1982	1983	Difference 1983 vs. 1982
1 Exxon	79.0%	72.6%	69.6%	79.8%	+10.2%
2 Amoco	71.3%	69.5%	74.4%	81.1%	+6.7%
3 Shell	77.1%	71.4%	73.9%	81.8%	+7.9%
4 Texaco	73.4%	69.5%	64.2%	NA	—
5 Mobil	80.6%	74.3%	74.8%	72.9%	-1.9%
6 Gulf	79.0%	72.0%	71.0%	69.0%	-2.0%
7 Chevron	80.5%	73.4%	58.9%	55.0%	-3.9%
8 ARCO	88.0%	96.2%	97.0%	96.0%	-1.0%
9 SOHIO	88.6%	80.0%	79.7%	86.0%	+6.3%
10 Sun	79.0%	76.0%	79.0%	84.0%	+5.0%
11 Union	79.9%	76.0%	74.0%	77.6%	+3.6%
12 Phillips	61.6%	75.0%	81.0%	88.0%	+7.0%

Source: Annual Reports of these companies.

Editor's Note: Refining capacities change from year to year.

[redacted]

Refiner	Barrels per Calendar Day	Change from Jan. 1, 1983	Percent of Total U.S. Refining Capacity
1 Chevron	1,484,700	+15,000	9.20%
2 Exxon Corp.	1,200,000	None	7.43%
3 Shell Oil Co.	1,005,200	-87,000	6.23%
4 Amoco	1,011,000	None	6.27%
5 Texaco	937,000	None	5.80%
6 Gulf Oil Co.	823,200	-57,900	5.10%
7 Mobil Oil Corp.	750,000	-109,700	4.65%
8 ARCO	728,000	+20,000	4.51%
9 Marathon Oil Co.	588,000	None	3.64%
10 Union Oil Co. of Calif.	490,000	None	3.03%
Top 10 Refiners	9,017,100	-219,600	55.86%
11 Ashland Oil Inc.	462,943	None	2.87%
12 SOHIO	456,000	None	2.82%
13 Dupont/Conoco	420,774	None	2.61%
14 Sun Co.	358,000	None	2.22%
15 Southland	320,000	None	1.98%
16 Phillips Petroleum Co.	295,000	None	1.83%
17 Getty Oil Co.	268,977	-9,200	1.67%
18 Tosco Corp.	258,800	None	1.60%
19 Koch Industries	242,000	+4,000	1.49%
20 Union Pacific/Champlin	230,000	-53,800	1.43%
Second 10 Refiners	3,312,494	-59,000	20.52%
Top 20 Refiners	12,329,594	-278,600	76.38%

The 12 companies in this report have 9,538,100 barrels per calendar day of refining capacity or 59.11% of the total United States refining capacity.

Company	# of Stations	Background of Chief Officer	Accountants	# of Pages in Annual Report	Pages Devoted to Gasoline Marketing	Percentage of Company Stock Owned by Officers & Directors	Average Return on Shareholder's Equity in 1983
1 Exxon	18,707	Chem. Engineering	Price Waterhouse	48	2/3	1/10th of 1%	17.2%
2 Amoco	17,800	Chem. Engineering	Price Waterhouse	52	1	N/A	15.7%
3 Shell	12,100	Geologist	Price Waterhouse	52	2¼	30/100ths of 1%	15.9%
4 Texaco	18,000	Chem. Engineering	Arthur Anderson	52	1/3	Less than 1%	8.6%
5 Mobil	15,403	Accounting	Arthur Young & Co.	48	1½	37/100ths of 1%	10.8%
6 Gulf	14,908	Chem. Engineering	Coopers & Lybrand	49	2	22/100ths of 1%	9.9%
7 Chevron	11,021	Chem. Engineering	Price Waterhouse	52	1	1/5th of 1%	11.6%
8 ARCO	4,400	Finance	Coopers & Lybrand	59	1¼	Less than 1%	14.9%
9 SOHIO	2,100	Eng. & Finance	Ernst & Whinney	64	1¼	Less than 1%	19.7%
10 Sun	6,700	Chem. Engineering	Coopers & Lybrand	60	1½	3.6%	8.7%
11 Union Oil	11,200	Chem. Engineering	Coopers & Lybrand	44	1/2	59/100ths of 1%	12.6%
12 Phillips	12,000	Finance	Arthur Young & Co.	74	1 & Cover	8.6%	12.1%
Totals	144,339			654	15¼		

12 MAJOR REFINERS REPRESENTING 66% OF THE NATIONAL GASOLINE MARKET UNITED STATES GASOLINE PRODUCT SALES

Thousands of Barrels Daily

Company	1980	1981	1982	1983	Increase or Decrease	Percent Increase or Decrease
1 Exxon	558	489	492	505	+13	+3%
2 Amoco	504	474	477	469	-8	-2%
3 Shell	527	470	459	465	+6	+1%
4 Texaco	435	404	388	421	+33	+9%
5 Mobil	428	363	378	386	+8	+2%
6 Gulf	414	401	398	379	-19	-5%
7 Chevron	449	387	354	370	+16	+5%
8 ARCO	329	292	324	369	+45	+14%
9 SOHIO	261	246	244	267	+23	+9%
10 Sun	289	256	275	263	-12	-4%
11 Union	253	218	213	227	+14	+7%
12 Phillips	214	209	216	212	-4	-2%
Total of 12 Major Refiners	4,661	4,209	4,218	4,333	+115	+3%

These 12 refiners produced 66,421,890,000 gallons of gasoline in 1983 or 2/3rds of all the gasoline used in the United States in 1983.

COMPARISION OF AVERAGE RETURN ON EQUITY OF THE 12 OIL COMPANIES THAT PRODUCE 66% OF THE GASOLINE REFINED IN THE UNITED STATES

Company	Avg. Return on Equity in 1980	Avg. Return on Equity in 1981	Avg. Return on Equity in 1982	Avg. Return on Equity in 1983	Difference 1983 vs. 1982	Difference 1983 vs. 1980	% Decrease Return on Equity 1980 vs. 1983
1 Exxon	21.8%	17.8%	14.9%	17.2%	+2.3%	-4.6%	-21%
2 Amoco	21.6%	19.2%	16.5%	15.7%	-0.8%	-5.8%	-27%
3 Shell	22.0%	21.0%	17.4%	15.9%	-1.5%	-6.1%	-28%
4 Texaco	21.1%	17.6%	9.2%	8.6%	-.6%	-12.5%	-59%
5 Mobil	23.9%	17.6%	9.4%	10.8%	+1.4%	-13.1%	-55%
6 Gulf	15.3%	12.5%	9.1%	9.9%	+.8%	-5.4%	-35%
7 Chevron	21.7%	20.0%	10.6%	11.6%	+1.0%	-10.1%	-47%
8 ARCO	21.4%	20.8%	18.1%	14.9%	-3.2%	-9.5%	-39%
9 SOHIO	39.7%	31.0%	29.5%	19.7%	-8.8%	-20.0%	-50%
10 Sun	16.8%	21.5%	10.5%	8.7%	-1.8%	-8.1%	-48%
11 Union	20.1%	20.8%	18.2%	12.6%	-5.6%	-7.5%	-37%
12 Phillips	23.8%	16.9%	11.4%	12.1%	+.7%	-11.7%	-49%

Source: Annual Reports of these companies.

RANKING OF NUMBER OF SERVICE STATIONS OPERATED BY THE 25 LARGEST REFINING COMPANIES

Company	# of Stations	Lundberg Letter Share of Market Ranking
1 Exxon	18,707*	6.90
2 Texaco	18,000*	5.80
3 Amoco	17,800	7.23
4 Mobil	15,403	5.69
5 Gulf	14,908	5.30
6 Shell	12,100	6.97
7 Phillips	12,000	2.61
8 Union	11,200	3.52
9 Chevron	11,021	5.06
10 Sun	6,700	2.51
Top 10 Companies	137,839	
11 Conoco Dupont	5,091*	
12 ARCO	4,400	4.82
13 Occidental Cities Service	None	
14 Getty	4,398	
15 American Petrolina	4,037	
16 US Steel Marathon	3,372	
17 SOHIO	2,400	
18 Ashland	2,000	
19 Kerr-McGee	1,837	
20 Union Pacific Champlin	N A	
Second 10 Companies	27,235	
21 Coastal	329	
22 Tenneco	411	
23 Crown Central	218	
24 Tesoro	89	
25 Tosco	None	
Third Tier Companies	1,217	
Total for Schedule	166,321	36.44

*Exxon, Conoco figures from NPN Survey.

Texaco figure from 12 31 82 Annual Report

All other figures from this year's Annual Report of the companies.

Company	1980 # of Stations	1981 # of Stations	1982 # of Stations	1983 # of Stations	Increase or Decrease	Total Increase or Decrease Since 1980
1 Exxon	22,886	20,585	20,600	18,707	-1,893	-4,179
2 Amoco	21,300	20,100	17,800	17,800	—	-3,500
3 Shell	15,400	13,700	13,300	12,100	-1,200	-3,300
4 Texaco	24,000	21,000	18,000	18,000	—	-6,000
5 Mobil	17,425	16,564	16,216	15,403	-813	-2,022
6 Gulf	16,055	15,277	11,967	11,908	-59	4,147
7 Chevron	12,139	11,586	11,295	11,021	-274	1,118
8 ARCO	8,200	7,122	5,260	4,400	-860	-3,800
9 SOHIO	2,300	2,300	2,200	2,100	-100	-200
10 Sun	9,000	8,400	8,100	6,700	-1,400	-2,300
11 Union	12,500	12,500	12,700	11,200	-1,500	-1,100
12 Phillips	12,805	13,900	13,900	12,000	-1,900	-805
Totals	173,810	163,034	154,338	144,339	-9,999	-29,471
			Percent change in total		-6.47%	-16.95%

Source: Annual Reports of these companies.

Company	1983 # of Stations	Total Gallons Sold per Year (Thousands)	Avg. Gallons Sold Per Station per year	Avg. Gallons Sold Per Station per month	Avg. Gallons Sold Per Station per day	Change in Gallons Day from last year
1 Exxon	18,707	7,741,650	413,837	34,486	1,134	+151
2 Amoco	17,800	7,189,770	403,919	33,659	1,107	-19
3 Shell	12,100	7,128,450	589,058	49,094	1,614	+165
4 Texaco	18,000	6,453,930	358,551	29,879	982	+77
5 Mobil	15,403	5,917,380	384,170	32,014	1,052	+73
6 Gulf	14,908	5,810,070	389,728	32,477	1,068	-49
7 Chevron	11,021	5,672,100	514,662	42,888	1,410	+94
8 ARCO	4,400	5,656,770	1,285,629	107,135	3,522	+935
9 SOHIO	2,100	4,093,110	1,949,100	162,425	5,340	+682
10 Sun	6,700	4,031,790	601,759	50,147	1,649	+223
11 Union	11,200	3,479,910	310,706	25,892	851	+147
12 Phillips	12,000	3,249,960	270,830	22,569	742	+89
Total for Top 12 Companies	144,339	66,424,890	460,200	38,350	1,260	+115

Company	1983 # of Stations	Station Days	Total Pretax Profits (Thousands)	Average Pretax Profits per Day Per Gasoline Outlet Operated
1 Exxon	18,707	6,828,055	$10,410,000	$1,525
2 Amoco	17,800	6,497,000	3,412,000	525
3 Shell	12,100	4,416,500	2,835,000	641
4 Texaco	18,000	6,570,000	2,375,000	361
5 Mobil	15,403	5,622,095	4,371,000	777
6 Gulf	14,908	5,441,420	2,606,000	478
7 Chevron	11,021	4,022,665	2,932,000	728
8 ARCO	4,400	1,606,000	2,672,399	1,664
9 SOHIO	2,100	766,500	2,655,000	3,464
10 Sun	6,700	2,445,500	835,000	341
11 Union	11,200	4,088,000	1,068,400	261
12 Phillips	12,000	4,380,000	2,277,000	519
Total of top 12 Companies	144,339	52,683,735	$38,448,799	$ 730

AMERICAN FLEET STATISTICS

	Average Fuel Consumed per Car		Average Miles Traveled per Car		Average Miles Traveled per Gallon of Fuel Consumed	
	Gallons	Index	Miles	Index	Miles	Index
1967	684	100.0	9,531	100.0	13.93	100.0
1968	698	102.0	9,627	101.0	13.79	99.0
1969	718	105.0	9,782	102.6	13.63	97.8
1970	735	107.5	9,978	104.7	13.57	97.4
1971	746	109.1	10,121	106.2	13.57	97.4
1972	755	110.4	10,184	106.9	13.49	96.8
1973	763	111.5	9,992	104.8	13.10	94.0
1974	704	102.9	9,448	99.1	13.43	96.4
1975	712	104.1	9,634	101.1	13.53	97.1
1976	711	103.9	9,763	102.4	13.72	98.5
1977	706	103.2	9,839	103.2	13.94	100.0
1978	715	104.5	10,046	105.4	14.06	100.9
1979	664	97.1	9,485	99.5	14.29	102.6
1980	603	88.2	9,135	95.8	15.15	108.7
1981	579	84.6	9,002	94.4	15.55	111.6
1982	587	85.8	9,533	100.0	16.25	116.6
1983	577	84.4	9,641	101.2	16.70	119.8

SUMMARY OF AVERAGE FUEL ECONOMY PERFORMANCE NEW PASSENGER AUTOMOBILES (miles per gallon)

Model Year	1978	1979	1980	1981	1982	1983	1984
Passenger Cars:							
New U.S.-made Averages	18.7	19.3	21.9	23.5	24.5	24.2	25.3
New Imported Car Averages	27.3	26.1	28.6	30.6	30.7	31.8	31.2
New Cars Combined Averages	19.9	20.3	23.5	25.2	26.1	26.0	26.5
Light Trucks:							
New U.S.-made Averages	N.A	17.7	16.8	18.3	19.2	19.6	19.3
New Imported Averages	N.A	20.8	21.1	27.1	27.0	27.5	26.8
New Combined Averages	N.A	18.2	18.5	20.1	20.6	20.8	20.5
Combined New Car and Light Truck Averages	N.A	20.1	22.5	24.1	24.8	24.6	24.8

Source: U.S. Department of Transportation

TOTAL MOTOR VEHICLES, MOTOR VEHICLE REGISTRATIONS, AND NEW CAR SALES

Year	Total Motor Vehicles	Total U.S. New Automobile Sales Including Imports	Total Automobiles Private, Public, and Commercial	Net Annual Increase In Total Automobile Registration	Average Annual Percent Increase In Registration
1950	49,200,000		40,400,000		7.4%
1960	73,900,000		61,700,000		3.3%
1970	108,400,000		89,200,000		3.2%
1975	132,900,000		106,700,000		2.3%
1976	138,500,000		110,400,000	+3,700,000	1.2%
1977	142,400,000	11,183,412	112,300,000	+1,900,000	2.8%
1978	148,800,000	11,314,079	116,600,000	+1,300,000	1.5%
1979	154,118,099	10,673,435	120,247,980	+3,647,980	3.6%
1980	155,889,682	8,979,194	121,723,650	+1,475,660	1.1%
1981	158,156,511	8,536,758	123,461,507	+1,737,857	1.6%
1982	159,149,166	7,980,800	123,746,128	+284,621	0.2%
1983	163,861,169	8,924,186	126,727,870	+2,981,742	2.4%

Source: Registrations - U.S. Federal Highway Administration Statistics.

Figures from 1978 and before from Federal Highway Administration, Highway Statistics as reported in the Statistical Abstract of the United States, 1980.

[redacted]

Excludes federal purchases for military use

Year	Total Consumption in Billions of Gallons	Average Annual Percent Change
1960	57.9	4.0
1965	71.1	4.2
1970	92.3	5.4
1972	105.1	6.7
1973	110.5	6.2
1974	106.3	-3.8
1975	109.0	2.5
1976	115.7	6.2
1977	119.6	3.4
1978	125.1	4.6
1979	122.1	-2.4
1980	116.0	-4.9
1981	115.2	-.6
1982	113.9	-1.1
1983	112.9	-1.0

[1] Change from 1955

[redacted]

Year	Highway	Non-Highway	Total Gasoline Use	Average Annual Percent Change
1978	112.2	3.6	115.8	—
1979	108.1	3.7	111.8	-3.3%
1980	101.2	3.6	104.8	-6.3%
1981	99.6	3.5	103.1	-1.6%
1982	98.5	3.3	101.8	-1.3%
1983	99.1	3.2	102.6	+.8%

Source: U.S. Federal Highway Administration, Highway Statistics Annual

I have a personal bias that you need to understand in order to interpret my remarks. I'm often surprised by the questions I get from people who read last year's Survey and by what they think I meant.

I've operated convenience food stores for over 25 years. I've operated convenience food stores and gasoline operations for over 20 years. I've tried almost every combination of retail offer I could think of that might make selling less goods for more money a legitimate, healthy, and profitable business. About a year ago I felt I finally understood the convenience business and wrote the "Blind Newsstand"editorial for the Thirteenth Dollars Per Day Survey. My years in the business, and the conclusions I reached in that editorial are the basis for my present comments about the industry.

1. I don't believe in the economic viability of the convenience food store, the C-type store, the stand-alone gasoline station, and especially the Ciosk (a self service gasoline station with an under-the-canopy kiosk that stocks some convenience goods).

2. Everything I say is not necessarily correct. Figure out which things are right for you. I don't know. Remember that success is often a matter of timing.

3. Almost anything will work if you want to work hard enough. It makes sense to limit your work to important ideas and projects. If the tide is going in your direction, your work will be much easier. It's tough to stand against the tide with a weak concept.

4. Each market is different. All markets are changing, but at different speeds. I believe what happens in California will eventually affect most of you. Those of you who have some geographical insulation from change are blessed to be able to see the future and decide if you want to participate.

5. Food and gasoline will be distributed more efficiently to the American public in the future. Most of the present food and gas offers will become obsolete. There is big opportunity for the business person who can deliver products to the consumers with the lowest operating costs.

6. If you're going to be in the retail business, you'd better become a merchant. You'd better learn how to buy and what it takes to sell. The pace of change in marketing continues to accelerate. You need to understand how your retail offer works and why it works. You may hire others to manage things, but you had better be the force for change in your own organization.

7. Most of you can't make the changes and improvements necessary to keep your retail offers competitive. Most of you are imitators who have developed mind sets about what you've copied.

8. I have a bias against consultants:
   a) Against those who have never actually been in business.
   b) Against those who have been in business, but have worked for others.
   c) Against those who were in the business for themselves and had good reasons for getting out. The health of a concept is inverse to the number of ex-operators trying to make a living giving advice to those just entering the business. They remind me of the farmer that said, "The best crop we raise around here is newcomers."

9. I don't think very many people have made big money in the C-type business. I try to keep track of the individuals that have cashed in their chips and gotten out of the convenience store game. It's not very impressive when after 30 glorious years those who left with only a million dollars are still on the top ten list.

10. For all the talk about change, the convenience store business hasn't changed much in the past 30 years. The dynamics are still the same. You get a building, you put some fixtures in it, you put some goods on the shelf and you copy the guy down the street. The basic offer is still the same — only the operating systems are more complicated.

NOW LET'S TALK A LITTLE ABOUT THINKING:

Each of us has a way that we perceive the world and our business. Scientists call this set of assumptions a paradigm. A paradigm is a model or a pattern and this model or pattern is generally shared by others. Our paradigm explains the world to us and helps us predict its behavior. When we believe in a paradigm and are in the middle of it, it is hard for us to imagine any other paradigm. It is hard for us to interpret the world in any other way than the way we do.[1]

Ptolemy's description of the universe was one famous paradigm. In Ptolemy's view the earth was the center of the universe. People believed that paradigm for years because it made more sense to them than any other view of the world.

In time, astronomers found discrepancies in the paradigm. Copernicus said the earth moved around the sun. Galileo wrote that perhaps the earth was not the center of the universe. The Cardinals called Galileo to Rome and he spent the rest of his life under house arrest.

Paradigms are not easily changed. The establishment is always fully invested in the old paradigm and is not interested in change. The establishment usually does not change. New ideas start up, are tried, gain acceptance and become the new paradigm. The new establishment is then the resistor of change.[2]

You may not be able to change the way you perceive food and gasoline retailing. You are the establishment and the establishment has a set of shared assumptions of how those businesses should be conducted. Your model of a successful offer is pretty well fixed. Some of you would probably like to put those who would change those formulas under house arrest.

For the next few minutes, try to pretend that you don't have a great physical and psychological investment in your paradigm. Try to keep an open mind and realize that there are people on the fringes who have found discrepancies in your paradigm and are moving in on you. There has been a sea change in food and gasoline retailing and you need to understand it.

1. Smith, Adam, *Powers of Mind* (New York: Random House, 1975).
2. Kuhn, Thomas, *The Structure of Scientific Revolutions* (Chicago: The University of Chicago Press, 1962).

WHO WILL BE IN THE GASOLINE BUSINESS IN THE FUTURE:

Only two categories of people can afford to be in the retail gasoline business in the future:

Category 1. Those who own oil in the ground and want to turn it into money. If you have a lot of oil in the ground, you need to have a distribution network to insure that you can turn that oil into dollars.

If the posted price for crude oil is $29.00 a barrel and you lose 10 cents a gallon in the process of turning that into money, you still get $25.00 a barrel for the oil. At the present time, under the present conditions, that's probably not a bad bargain, so long as the net sales price of the oil gasoline is much higher than the cost of the oil in the ground. Category 1 people will continue to subsidize refining and marketing operations. They are in the business of selling oil. In order to do that profitably they can, at the present time, afford to take some loss on refining and marketing. They are interested in the volume of sales, not the percentage margin on the sale.

Category 2. Those who develop a retail offer in which they run profitable businesses without making any margin dollars from the sale of gasoline. This category will always set the gasoline margins at the retail level in a free market. So long as this category can buy gasoline (and that is less of a problem all the time), they will determine the loss the people in Category 1 will sustain maintaining retail units that rely on retail gasoline margins to pay the costs.

The major oil companies are trying to upgrade and modernize their retail stations. They're building big new units on good retail sites. They appear to be ignoring reality. These new units are budgeted to make money only if they attain unrealistic gallonage levels. Real estate representatives know how much gallonage is necessary to show a budgeted profit from these units, so they oblige a willing management with those figures. As long as Category 2 people don't have to make money from the sale of gasoline, those new major stations will not make money.

Those who amortize their gasoline capital equipment costs and run profitable businesses without gasoline margin will be the survivors in gasoline retailing. So long as there is a free market in crude oil, excess refining capacity, and pricing freedom in retail markets, the chances for profits from gasoline marketing favor Category 2. If the price of oil continues to decline, even oil companies will have to reassess their new gasoline marketing strategies again.

The big story is that you don't have to be in either the oil business or the food business to sell gasoline. Technology has changed that. The development of rapid transit type cash cards frees gasoline retailing from its past paradigm. Any retailer with the space can install gasoline pumps and sell magnetic cards as an auxilary business. These retailers will sell gas cards instead of gasoline.

You will be better off if you don't structure yourself as a gasoline station operator or as a small food store operator. The returns in both businesses have not been very good. Both fields suffer from ease of entry problems and strong competition. These businesses have historically had skinny financial returns.

I recapped some of the retail offers that have shown the greatest returns over the past few years on page 7. Forbes magazine's ranking of the four hundred richest Americans has nineteen retailers on the list. Seven of the individuals made their fortunes from the retail offers on the schedule. Most of the individuals did it by breaking the paradigms of their chosen field. They changed the rules of their industries.

You will notice that 7-Eleven's dollars of profit per day per store (or that of any other publicly owned small food store) compares poorly with the very successful retail offers. Profits of the successful companies come from a superior consumer offer coupled with unusual attention to execution and cost effectiveness. These are not hallmarks of the convenience store industry.

Most of the big retail successes made the other guy's business obsolete. Successful offers offer unusual value to the consumer, with all of the retail verities packaged in a way that makes it difficult for established retailers to compete. The concepts are radical enough to be rejected out of hand by the present establishment. The newcomers thus have sufficient lead time to obsolete the accepted paradigm without competition.

Unless you have oil in the ground, most of you need to develop a new retail offer if you want to stay in the gasoline business. There are many things you can do in retailing besides sell food. Your other offer needs to be strong enough so that you don't have to make any immediate margin dollars from gasoline sales. To have a long term place at the gasoline marketing table, you have to do something else well. Only time will tell if having a place at the table will be worthwhile.

WHAT ABOUT GASOLINE RETAILING TODAY?

In 1983 the U.S. had a 99.4 billion gallon market in gasoline. It's a 120 billion dollar business. It appears that 1984 gallonage was up about 2%. It is doubtful that the United States market for gasoline will be much larger in the next 20 years. It is more likely that we will see declines in consumption. The average miles traveled per gallon of gasoline continues to rise, but it will be several years until today's new car fleet averages are the standard. Miles per gallon savings will continue to outpace the increased number of cars and more miles traveled per car. If the fleet average were 32 miles per gallon today, we'd have just a 50 billion gallon market for gasoline.

MOST OF YOU ARE PROBABLY GASOLINE OPERATORS WHO WANT TO BECOME CONVENIENCE STORE OPERATORS. YOU NEED TO KNOW THAT DOESN'T MAKE SENSE:

All businesses are finite. Even segments of businesses are finite. Convenience stores (the less-for-more business) now accounts for 6.25% of the total United States food store business. Total food store sales in the United States are about 264 billion dollars a year. The convenience food store segment of that business is about sixteen billion dollars. Total food store sales are growing slowly, and the total amount of that business the convenience food store segment can capture is limited. (Note schedule on Page 000).

The number of stores who want a share of the convenience food business is growing faster than the convenience share of the food business. It's like the old days when there was a gasoline station on every corner. If there are four C-type stores on four corners of an intersection, they'll do more business than if there is only one C-type store on one of the corners. It's doubtful any of them will generate enough in sales and margin dollars to be profitable.

The best position in the convenience store business is to have stores with old costs. There is a dramatic difference in operating costs between a store built ten or twenty years ago and a store being built today. You don't have to do much in the way of sales in an old store to be profitable. You have to do a lot of sales in a new store to pay your costs.

The two most successful strategies in the C-type business are: 1) Mining your own old costs; or 2) buying chains with old costs, closing low volume unprofitable units, and then mining those old costs by reaping rewards from the remaining units.

The least successful strategy is to try to make profits from new stores. It is difficult to produce enough sales and margin dollars to pay current costs from a convenience store offer. If you use the established convenience store paradigm, you don't have enough margin dollar potential to pay today's costs. As I've said in past editorials, convenience is dead. It was killed by high operating costs. With the proliferation of new units, there is little chance of a resurrection.

7-Eleven made $56.00 per day per store last year in pretax profits. 41% of their stores sold gasoline and they made $72.00 margin dollars per day per gas unit from the sale of gasoline in those units. They obviously lost money in their basic line of business in many of those stores. 7-Eleven is very good at running convenience stores. They have many years of experience. It is unlikely that you will run stores as well as they do for a very long time.

Most convenience store operators must make money from gasoline to be profitable. This is new. They used to make money from just running stores. You should not enter this business unless you have developed a retail offer that is stronger than the one being used today.

WHAT WOULD I DO IF I WERE AN ESTABLISHED GASOLINE JOBBER OR A TRADITIONAL GASOLINE RETAILER AND FELT I NEEDED TO DO SOMETHING?

I wouldn't invest in the C-store paradigm. The dominant consumer market today is the price market. The price market is the mass market. The C-type store does not attract the price shopper. You can't have a very big business unless you are in the price market. High prices, low quality offers do not appeal to the sense of value that drives today's market. The C-type paradigm is not consistent with today's consumer environment. There was a period when many people said "My time is more important than my money." Today people say money is worth more than their time.

Here's what I'd do:

1. Identify my best location or locations.

2. Try to sell something from that location:
   - Find a need and fill it.
   - Do something cheaper than anyone else.
   - Do something better than someone else.

3. Get in the price business. Go after the real purchase, the planned purchase. Be a V-type (value) outlet rather than a C-type (convenience) store.

4. Limit your offer. Don't try to be all things to everybody. Decide exactly what you want to be good at and try to do that well. Edit your offer so that the customers know exactly what you stand for and why they came to your place to buy.

5. Practice the paradox of retailing. Plan to serve the customer first. Put the customer ahead of profit so that there is likely to be some profit. Put profit ahead of customers and you are likely to come up empty.

6. Learn good retailing principles. Read books on retailing and on successful retailers. There are verities, immutable laws, and revealed secrets about retailing. These are rarely practiced except by the very successful. Good peddlers seem to know them instinctively. The rest of us need to learn them. We violate them to our detriment.

7. Stay away from convenience store people. Their paradigm is a bad paradigm. Throw away convenience store periodicals without reading them. Don't corrupt your good sense. There is no harder starting point for becoming a successful retailer than to begin as a convenience store retailer. The unlearning process is too great. Don't learn the pricing of convenience.

8. Use your common sense. Don't get too sophisticated. Don't worry about organized market studies and demographics. There is an old retail expression: "The customer isn't stupid—she's your wife!" Figure out if you have your wife's business and your wife's relatives' business.

9. Execute well, but don't fine tune. Start with a strong enough concept so you can make money while you learn. Have a strong risk to reward ratio built into your offer.

10. Don't over-analyze. Rely on your gut reaction. A smart fellow once said he wouldn't take any deal that couldn't be explained on the back of a napkin.

11. Think the business through for yourself. Don't copy. Most people copy poorly. They copy the wrong elements and change the right elements. If you try to copy others, you won't know what to change, when to change, and what to change to. Develop your own logic for what you are doing.

12. Visit merchants with successful mass market offers. There are some really good merchants in the United States. There may be too many really good merchants. Visit stores with good reputations and good offers. Try to figure out why their stores are full of customers. Don't copy what they are doing. Try to determine why they are doing it.

13. Own your own real estate. When it's all said and done, owning the real estate may make it all worthwhile. Most gasoline jobbers here today are here because someone had the sense or the good luck to buy the real estate.

Take the best location that you own. Find a legitimate need in the marketplace. Structure the business so that you have a cost advantage. Limit the offer to your strengths. Learn to be a good merchant and end up rich, famous, and on the Forbes 400 list.

NOW THAT ALL OF THE GASOLINE MARKETERS ARE RICH, WHAT SHOULD A C-TYPE OPERATOR DO?

That's harder to answer since I'm a born-again retailer. I'm trying not to think like a C-type store operator. The convenience operator who has an investment in his paradigm starts off with severe limits and liabilities. They first need to decide if they want to be blind newsstand operators. If they are comfortable with that, they should operate by the rules of that business and stop thrashing around trying to be something else. They can't improve from where they are. Improvements to blind newsstands just increase costs and don't add to profitability. Most convenience store operators will be best off by continuing to be blind newsstand operators.

If you decide you don't want to be in that business, you should try to be a V-type operator. Give the public more for less. You should ask yourself, "Are there things I can do with a small store in this community better than someone can do in a larger facility?" "Can I be the economic supplier of some type of product that is in large demand by the consumer public?" If you get good answers to these questions you should consider changing your offer. If not, be careful that you don't just add to your costs and become a blind newsstand dealer with new graphics.

Convenience store operators should re-evaluate whether they should be in the gasoline business. The economics of that business have changed. It has become a capital intensive situation.

When I first went into the gasoline business in 1961 we sold 1,000 gallons of gas a day at a 6 cent a gallon margin and made $60.00 a day in gas margin dollars. The total cost of the gasoline unit was $10,000.

Last year, the C-types in this industry averaged 1,201 gallons of gas a day and made 6 cents a gallon margin or $72.00 a day in gas margin dollars. 7-Eleven recently installed a 6 nozzle, 3 product, small canopy unit without double containment for $85,000. Vapor recovery and double containment will raise future installation costs by 40%.

The basic gasoline offer is the same, but the economics are different. The convenience store two pumper ruined the traditional gasoline station business. It did this initially because it incurred almost no extra costs of operation. It is doing so now because the convenience offer is so poor that C-type stores must sell at a low relative price in order to pump any gallonage.

Most operators feel that the combination of gasoline with food is synergistic. In practice the amount of trade-off sales changes with different volumes and offers. Unless you have old gasoline equipment, C-type store gasoline retailing in new units is a break even business. It is certainly not the cornerstone on which to build stores of the future.

Most convenience store operators probably understand their businesses. They know they can't change the basics of that business very much. They have begun to add a lot of bells and whistles to their operations because they need something to do. I don't think adding scanning, telecommunications, video, and energy controls add much to their profits. There is a strong drive in the industry to computerize and systemize. The management staffs in some organizations work full time on systems, and part time minding the store. I'd advise that they keep things simple so the people they have can run their stores. Don't ask too much of the handicapped.

Many operators need to let Southland know that they exist. 7-Eleven obviously doesn't think too highly of their C-type competition and feels if they build on top of them they'll wither away. It's foolish to struggle too hard when they have you beat on location and have you at a disadvantage. When they build near where you have a good location, you should improve your facility, and your offer. Use your older costs of operation to your advantage and out price them. If it costs them enough operating profit, perhaps they'll have more respect for your marketing abilities and staying power. They may not build on top of you many more times. Remember that turn about is fair play, and they have some locations that are vulnerable.

Buy cheaper. Convenience stores buy terribly. Convenience stores buy so badly that their buying disadvantage has been institutionalized. Some suppliers have organized programs to sell you less goods for more money. They think you should pay more for goods than other channels of trade. You should reread the column from last year's Survey (*Channels of Trade* on Page 000). I was shocked when I found out about "Channels of Trade." I suspected that I paid more for soft drinks now and then, but I didn't realize Coca Cola and Pepsi Cola thought it was right that I paid more.

Your sense of fairness probably says that anyone who buys the same quantity of soft drinks should pay the same price. The soft drink companies think that since you sell their product for more money, they should charge you more money to buy it. They consider the mass market retailers to be market expanders. They are willing to offer price to those retailers. Since C-type stores merely trade on brand names to get a high price for goods, soft drink companies think you should subsidize their label's market expansion.

This system has been institutionalized under what they call "Classes of Trade" or "Channels of Trade". You are in a channel of trade and you need to know what that channel is and what that channel pays for soft drinks. You also need to know about all of the other channels of trade and all of the deals they are offered to expand their sales of soft drinks.

Most of you could buy Pepsi Cola and Coca Cola cheaper if you drove a truck down to the local supermarket and bought product from them. Get in the habit of watching the local chain drug and supermarket ads. Call your local bottler and the national company representative when you are paying more than they are selling it for. Don't accept the answer that your competition is selling below cost. The only cost they sell below is yours. You need to instill in the soft drink people a new code of fairness.

They have divided and conquered the retailers by giving each segment of the market a different deal. You have a better deal than some other segments. You should get them to change the policy that small stores pay more per case than big stores for the same quantity of product. Remember that you are dealing with slippery folks. Listen to them and then check what they tell you against the ads and shelf prices of the mass market price competitors.

SO WHAT'S NEXT?

In the next few years, the changes in the mass marketing of food will be as great as when supermarkets were first built. This creates a new area of opportunity. The old paradigm has been broken and the new ones are beginning to take over.

At this point, convenience store chains are still the dominant element in small food store retailing. The gasoline jobbers are staking out a portion of the market in areas where they have been traditionally strong as gasoline operators. The newest players in the game, the major oil companies, are trying to save the best elements of their old distribution system by combining it with convenience food sales. They may do great damage to the convenience store companies without achieving great financial success of their own.

To date, all of these attempts appear to be operating within yesterday's paradigm. Some operators on the fringes have doubts about how the system works, but the store of the future is yet to be built.

One other item I can't help but include in this year's report.

Product Categories
Milk, bread, and cigarettes have historically been important product categories for C-type stores. Total national sales are declining in these categories:

	U.S. Cigarettes Manufactured	Tax Collected
1980	701,593,955,034	$2,102,857,000
1981	743,720,839,804	2,538,674,000
1982	711,192,678,246	2,199,046,000
1983	668,088,852,655	1,089,226,000
1984	657,382,721,111	

Source: U.S. Dept. of Treasury. Based on tax collections.

	U.S. Cigarette Sales— Movement from Bonded Warehouse	Weighted Average per Pack	Total Value
1981	730,100,000,000	67.7 cents	$24,713,885,000
1982	696,100,000,000	81.9 cents	28,505,295,000
1983	600,000,000,000	90.1 cents	27,030,000,000
1984*	593,000,000,000	95.5 cents	28,315,750,000

*Estimated

John Roscoe has operated a chain of food and gasoline stores for the last twenty-seven years. He now operates a chain of Food & Liquor stores in three western states.

Mr. Roscoe has published the Dollars Per Day Survey every year since 1971. The Dollars Per Day Survey is generally regarded as the most accurate source of information on the small food store industry in the United States.

His company is interested in operating high volume stores in facilities supplied by major oil companies. If your company is interested in discussing volume branded gasoline marketing in Northern California, contact him at 707-745-6691.

Ned Roscoe is a grocer in California. He is on the Junior Board of the Comité International des Entreprises à Succursales (The International Association of Chain Stores).

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